GEORGIA AGRICULTURAL/AGRIBUSINESS SECTOR ASSESSMENT

PREPARED FOR USAID/GEORGIA
OFFICE OF ECONOMIC REFORM

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I. Executive Summary

A. Key Findings

The agricultural conditions of Georgia favor competitive agriculture/agribusiness. The reasonably mild climate with adequate heat units, day length, and growing days enables economic production of a wide variety of crops. Soils are moderately fertile and easily tilled, although the rainfall is marginal in many areas and supplementation by irrigation water is required in many regions. Thus, the country of Georgia is blessed with favorable conditions for the production of a wide variety of annual and perennial crops, as well as livestock.

Marketing and finance were identified by most sector stakeholders as the key constraints to expanding output from the economically dominant agricultural sector in Georgia. Growth in production is taking place, where a market exists or can be identified. Assuming they have access to financing mechanisms when necessary, farmers respond with additional production or changes in their production mix, when market demand is present. Adding value to agricultural commodities via processing, grading or packaging normally requires additional financing, and it is often not available. Thus, financing is a major constraint and additional financial support to both the farmer and value added producer is necessary to facilitate agricultural development.

The availability of information about new markets remains very limited. Only a few Georgians are aggressively seeking new markets, and information about new marketing opportunities is not reaching Georgian producers. The Russian market is still the first target, and all too often, the only market being considered. Important international requirements to enter the market place such as ISO 9000 [1] and HACCP [2] are largely not being addressed.

In spite of a myriad of problems in the enabling environment for private enterprise growth, some Georgians are making the system work. They are dealing with tax, customs, corruption, power, input supply and other constraints facing the private sector. Based on these examples, it does not seem necessary or advisable to wait until the macro reform process had achieved further results. Doing so would only slow or delay the contribution the agricultural sector can make to Georgia's economic growth. In fact, it was concluded that firm-level or value-adding organization assistance would provide experienced-based information that would be useful in further refining the reform process.

The options for USAID/Tbilisi of doing nothing additional in the agricultural sector at this time or following a more ad hoc approach seem much less desirable than taking positive action and implementing a new program focused at the value added level of the agricultural/ agribusiness system. The current level of assistance to the agricultural sector being provided by USAID is very modest compared to the importance of the sector to Georgia in terms of employment and economic contribution and much of the current assistance will end shortly. Nor do current USAID or other donor programs systematically address the problems to agricultural sector growth and development from a market perspective. This is particularly true of World Bank and European Commission Programs that largely support Government of Georgia needs rather than focusing on the private sector which ultimately must be the driver of economic development.

1. ISO 9000 is a set of five universal standards for a Quality Assurance system that is accepted around the world. About 90 countries have adopted ISO 9000 as national standards. Once a company is registered to the appropriate ISO 9000 standard, buyers have the assurance that product quality will be as expected.
2. See footnote 10 below for a discussion of the Hazard Analysis and Critical Control Point (HACCP) principles.

B. Recommendation

The Assessment Team strongly recommends that USAID/Tbilisi initiate a new three-year assistance activity to support value-adding enterprises associated with selected agricultural commodities/ products for which a specific market has been or can be identified. Programs to promote land market development and to restructure the Ministry of Agriculture are important elements of a wider objective to promote agricultural sector development and should be continued.

The objective of the new activity is to significantly increase the physical quantity and value of targeted crops or products that are being demanded, primarily by export but also domestic markets. Technical assistance, training and credit assistance would be supplied to value-adding organizations in identifying products and markets and in meeting the various quality and health safety requirements of those markets. This will include assistance to Georgian firms in adopting and utilizing ISO 9000 and HACCP procedures to enter international markets. The specific crops and products and markets to be initially targeted would be determined during an initial short-phase of the assistance activity. However, it is most likely that they would be drawn from wine, fruits and vegetables and/or organic products for export markets and animal products or livestock industry inputs for domestic markets.

The recommended investment in the activity is estimated at $9.0 million over three years. From this investment USAID should expect to have: new markets identified for Georgian agricultural products, increased sales and/or exports of the identified products; established and operating value-adding organizations and producer associations; and more income reaching the rural farm population.

The focus of the recommended assistance on value-adding organizations and firms in the agricultural sector is a very effective way of reaching a large number of rural residents in locations outside of Tbilisi. In addition to meeting USAID S.O. 1.3 objectives, the purchasing power that can be supplied to rural residents via a market for their products has major implications throughout the economy and for other community-based efforts.

II. Purpose and Methodology

A. Purpose

The purpose of the current (February 2001) Agricultural Sector Assessment is to provide a documented basis and rationale for sector-specific assistance program options to be considered by USAID/Georgia. In August 2000, USAID Tbilisi invited a five-person team from USAID Washington to assess the programs under its Economic Reform (SO1.3) portfolio and related economic conditions in Georgia. The concluding report (September 2000) included recommendations for current programs, as well as areas to consider for possible future program development. In the latter category, the Team recommended that the Mission give serious consideration to a future program in the agricultural/agribusiness sector. The scope of the broader market reform assessment did not allow adequate analysis upon which the Mission could reasonably base programming decisions.

Although the current assessment is a follow-up to the Market Reform Assessment, the Agricultural Assessment report has been prepared with two short-term and one longer-term

objective in mind. First, by distilling and summarizing available information from written materials and earlier visits to Georgia by assessment Team members, it serves as a concise background document. Second, the document reflects Team consensus on what are the important issues and constraints to agricultural sector growth in Georgia, the relative importance of different constraints and possible roles USAID might want to play in removing constraints. Finally, it is hoped that the document will become the foundation for a more detailed activity design effort.

B. Methodology

The methodology employed the use of primary & secondary source information. The primary information came through direct contact and discussions with agribusinesses, the Minister of Agriculture, donor groups, non-governmental organizations (NGO's), contractors, and other implementing agencies. In addition the Team was also fortunate to been able to participate in the Mission S.O. review of programs in preparation for the upcoming R-4 submission. Finally, the Team benefited from substantial interaction with all levels of USADI/Tbilisi staff. As for the review of secondary information, the Team obtained documents from the various groups interviewed (NGO's, contractors, USAID, Ministry of Agriculture, Georgian Department of Official Statistics, World Bank, TACIS, EU Commission, etc.) and utilized this valuable resource material in preparation of this assessment.

III. The Agriculture/Agribusiness Sector[3]

A. Situation

1. Introduction

Agriculture plays an important role in the Georgian economy. In 2000, the sector contributed over 25 percent of gross domestic product (GDP). Employment in the sector accounts for just over 50 percent of total employment in Georgia with agricultural exports ranking second only to metals in 1999 providing over 17 percent of total exports [4].

The importance of the sector to the Georgian economy, nevertheless, belies a serious crisis of stagnancy. Agricultural/agribusiness production is down 30 to 40 percent from the levels of the late 1980's. Further, the value of food, drink and tobacco imports exceeded agricultural sector exports in 1999.[5] In sharp contrast, in the 1980's the value of Georgian food exports to the rest of the Former Soviet Union exceeded by a factor of 1.7 the value of food imports from other Soviet republics[6.] Over 50 percent of the grain and dairy products consumed are now imported.

In recent years a number of changes have occurred that are helping create a better enabling environment for agriculture/agribusiness. The almost complete withdrawal of subsidies, a relatively liberal trade regime, and the freeing of domestic prices for agricultural products are good examples. The interest and commitment of the Minister of Agriculture to restructuring and downsizing of the MOA to meet the needs of a market-driven agricultural sector is another positive step forward.

3. Additional information on the Agriculture/Agribusiness Sector is contained in Annex I.
4. The source of these numbers is the IMF Report of April 7, 2000.
5. Latest year for which data is available.
6. From "Georgia Reform in Food and Agriculture Sector: A World Bank Country Study." 6/1/96

2. Agro-Production Levels and Trends[7]

The country of Georgia is blessed with favorable conditions for the production of a wide variety of annual and perennial crops - wheat, corn, sunflower, grapes, fruits, tea, citrus, vegetables, tobacco, essential oils and organic herbs and spices. With variations due to weather, annual grain production of around 700,000 metric tons is close to1990 levels with increases in areas planted offsetting lower yields. The area planted to potatoes after slumping initially is now at 1990 or higher levels with production seemingly reaching new highs, particularly if home garden production is included. Vegetable production continues well below 1990 levels, largely due to the decline in processing demand. The area planted to seed (apples, pears) and stone (plum, cheery, peach, apricot) fruits has declined by 65 percent since 1990. While the production of seed fruit has continued to decline, the production of stone fruit has stabilized since 1996 and actually rose 30 percent in 1999 over 1998. With respect to citrus the decline has been even more dramatic, going down by 86 percent between 1990 and 1999. The production of nuts (walnuts, and hazelnuts) has been a bright spot for the sector as production rose from 9,000 tons in 1990 to 35,000 tons in 1999.

The livestock sector, like the crop sector, has experienced substantial declines. Production of meat and meat products is 40-45 percent below levels of the mid-80's reflecting a substantial drop in animal numbers. The largest declines have been in swine and sheep, although numbers have stabilized at mid 1990 levels. Poultry numbers fell through 2000 to 1/3 of what they were in 1990, but egg production has recently shown an upward trend. On the other hand, broiler production is still limited, mainly due to a lack of good feed sources, and the importation of low cost chicken parts. Total milk production is almost back to levels achieved in the late 1980's, as is production per animal of 900-1000 liters per lactation or about 12-15 percent of average Western levels. Wool production has dropped more than 70 percent since the 1980s. Budget shortfalls have reduced the availability of government veterinary services.

According to available statistical data, in recent years the household sector (small farmers) has gained in importance as the primary agricultural production sector in Georgia. In 1988 the household sector produced 25 percent of all grain, and 95 percent by 1999. In the case of potatoes, vegetables, and grapes household producers accounted for 45 to -50 percent of production in 1988 and 98 percent in 1999. For fruits and citrus, household producers have been the dominant sector for many years, as in 1988 they accounted for 77-78 percent of production and in 1999 for nearly 99 percent. Data that disaggregates the small producer sector is not available. However, the OSC survey conducted in summer 2000 suggests that there is a range of farm size and level of production for market on those farms. The vast majority of households (84 percent) only produce on land that they own, and consume 80 percent of their own produce. The remaining 16 percent of agricultural producers rent land from the state (2-5 ha. on average) and market at least a quarter of their production.

In the past Georgian agriculture exports contributed positively to the trade balance. During the Soviet period Georgia was one of the major suppliers for fruit and vegetable products to the republics of the FSU, exporting fruit of various kinds, tea, essential oils, citrus, wine, alcoholic drinks, mineral waters, canned fruit and vegetable products. These agricultural exports were 1.7 times more than the imports of agricultural products from other republics within the FSU-grain, meat products, dairy products and fodder. Recently, official data indicates that Georgia has changed from a net exporting country to a net importing country with respect to agricultural products. In fact, since 1996 the imbalance in agricultural trade has become very substantial. In

7. See Annex II for production tables.

1999, agricultural imports (including tobacco) appear to have exceeded agricultural exports by a ratio of 3 to 1.

3. Agro-Processing Levels and Trends

Most small and medium sized enterprises in Georgia (including agribusiness firms) have been privatized, but a substantial number of the enterprises controlled by the MOA (reportedly over 130) remain to be privatized. Many of these agricultural facilities are old, of a scale that makes them inefficient and non-competitive, and simply not operating. A World Bank study concluded that production levels in the agro-processing sector were at about 10 percent of 1980 levels[8].

Amid this depressed picture some good, though limited, examples exist of local and foreign companies operating effectively in a range of areas including fruit processing, flour/bakery/macaroni processing, meat processing, potato packing, and egg production and packing. While these enterprises demonstrate the potential of Georgia agro-processing, it is significant that some of these enterprises frequently import raw materials and packaging.

Packers and processors are searching for new market opportunities in western countries and, with assistance in grading, packing and handling and in meeting export quality, sanitary and labeling requirements, good market outlets for fresh packed fruit products are probably available. Processors of juice, jams/jellies and wines have identified some market outlets for their products in FSU countries as well as western and Middle East markets. The Georgian Export Promotion Agency (GEPA) supported by EU-TACIS is working to develop export initiatives from Georgia and is helping with market identification and export support. Another opportunity may soon arise if current plans, being implemented through Elkana, the Biological Farming Association, are successful. Under this initiative a Georgian organization would be authorized to issue certification that Georgian products meet the international requirements and can be labeled as organically grown.

Many of the newly privatized processors are beginning to revive operations and as they do, assistance in marketing, equipment and maintenance financing, and working capital provision for purchases of raw materials from farmers will be needed. Equally important will be assistance in meeting the quality, health, content, labeling and other standards required by international markets. While some Georgian producers may resent quality and health standards and see them as non-tariff barriers, the reality of the developed country market place is that such standards are likely to increase rather than decline. Current Georgian manufacturing and processing standards, most especially for food products, will not be acceptable in most markets.

In order to penetrate higher-value markets, Georgian products will have to meet ISO 9000, HACCP [9] or other international market or industry specific standards for processed or fresh products. However, the Assessment Team found little attention being given to these issues. The introduction and initial implementation of such market standards will likely require coordination

8. See "Georgia: An Update of Agricultural Developments" by Ian Shuker of the World Bank, July 24, 2000.
9. HACCP stands for Hazard Analysis and Critical Control Point. It is based on seven principles: analysis of hazards, identification of critical control points, establishing preventative methods with critical limits at each control point, establishing procedures to monitor the critical control points, establishing corrective actions to be taken when monitoring shows a critical limit has not been met, establishing procedures to verify that the system is working properly and establishing effective record keeping to document the system. HACCP focus on identifying and preventing hazards from contaminating food, is based on sound science, permits efficient and effective oversight, places responsibility for ensuring food safety on the food manufacturer or distributor, helps food companies compete effectively in world trade and reduces barriers to international trade.

and assistance from target market consulting or certification firms. Eventually, Georgia should have credible, indigenous and, whenever possible, preferably private sector capacity to provide training certifications and periodic compliance inspection.

4. Land Ownership

According to 1999 data from the National Department of Statistics, there are close to 2.6 million hectares of agricultural land in Georgia[10]. Of these roughly one third were privatized and distributed to rural families according to the so-called "land privatization decree" (Government Resolution 48, January 1992) and the subsequent Law on Agricultural Land (March 1996). Of this land, nearly 70 percent was arable or planted to perennials. Land associated with residential plots was included in a total of up to 1.25 hectares distributed to each family.

Ownership of the remaining two-thirds agricultural land in Georgia is held by the state. Only little over one half of this state-held land is leased (meaning that a little over one third of all agricultural land is leased). The leased land is a mixture of arable, perennials, pasture and hay land. The remaining unleased, unallocated land held by the state is primarily pasture land, much of this in the alpine zone.

There are over one million farms that cultivate only their own privately held land. According to the OSC survey, 84 percent of the rural population is dependent on these subsistence farms, where approximately 80 percent of the produce is consumed by the farm families themselves. The remaining 16 percent of the rural population have enlarged their land holdings by leasing additional agricultural land from the state.

Lease agreements can be arranged for up to 50 years, however over 40 percent of respondents in the OSC survey hold leases of 1-3 years and another 32 percent have leases for 4-6 years. Lease payments were originally intended to cover both the land tax and an additional premium that would vary according to the region and quality of the land leased. However, the typical arrangement requires only the annual payment of land tax. This amounts to 57 Lari per hectare per year for arable land of good quality, including irrigated land.

Legislation to privatize the remaining state-held land is currently being developed in the Parliament. The goal of this privatization is to move arable land out of the public sector. Whatever distribution strategy is adopted for privatization of this land, efforts should be made to expand public understanding and build public support for this program. USAID should use the Association of Land-owners' Rights (APLR) to promote a transparent privatization of this land that promotes commercially viable farms while acknowledging social equity considerations. Specific recommendations for a USAID position on the legislation were provided in the Market Reform Assessment Report of September 2000.

The current pattern of private land holdings is highly fragmented. While it is hoped that the privatization of state-held leased land will promote the development of more commercially viable farms, the development of a land market is necessary to promote the consolidation and rationalization of land holdings among rural residents interested in and capable of engaging in commercial agricultural activities. APLR data on subsequent land transactions as of January 22, 2001 show that approximately 2,600 land sales have been recorded through out Georgia. Anecdotal evidence suggests that more transactions are occurring, but are not being recorded.

10. Not including approximately 72 thousand hectares of agricultural land in contested areas.

Recent policy changes have reduced registration fees from 26 Lari to 7 Lari. It is anticipated that this reduction in transaction fees will increase the incidence of transaction registration.

Agricultural development in Georgia is dependent on a consolidation and rationalization of land holdings. Privatization of the state-held leased land should facilitate this process. The development of a land market will further improve land utilization. USAID is supporting the privatization process and development of land markets through its follow on to the Land Market Project. While agricultural sector development in Georgia will benefit from land market development, development of a land market in Georgia is tied to an increased demand for agricultural produce.

5. Finance

Numerous credit programs are active in Georgia. Commercial banks, credit unions and donor organizations are making loans to a variety of borrowers. Generally the financial institutions provide short-term (one year or less) medium and small size loans to mostly urban Georgian businesses. Very little of the limited credit supply is directed to agriculture, which is understandable when the risk of making a short term loan to an urban business is compared with the risk of lending to an agricultural business. However, these credit suppliers generally have only limited funds. The 200+ credit unions are small with few having more than $50,000 in capitalization. The commercial banking system is going through a period of consolidation and stabilization and has a limited paid-in capitalization (less than $90 million as of August 2000). Donor supported projects operate with about $10 to $15 million in loan funds. Many of the donor assisted programs have only been operating only three to four years, and very few, perhaps only the Microfinance Bank and FINCA, have yet reached the stage of being self-financing or sustainable in the long term.

Among lenders the credit terms vary substantially, tending to reflect market rates and averaging around 30 percent per annum. The best rates for agricultural/agribusiness projects are 18 percent per annum with collateral requirements of 150 to 200 percent of the loan value. Institutions interviewed indicated that collection rates are good to date, although many loans are relatively new and repayment is pending.

For medium or long-term capital for the agricultural/agribusiness sector, the banking system with its limited capitalization is not currently, and will also not be in the short run, a significant source of financing. For some businesses, suppliers and buyers are meeting some of the need for credit. Suppliers do provide some credit to the agricultural sector for production inputs, but the amount is small and will remain so until good repayment track records are established. Trade financing and funds transfers by buyers are also a major problem. Very few buyers are willing to advance funds for purchases because there is still substantial uncertainty as to whether the producer will actually deliver.

6. Investment

As outlined above, the local banking system does not have the capacity or willingness to finance the level of investment required to grow the agribusiness sector. This means that new capital will need to come from private domestic and foreign direct investment (FDI). Since the availability of domestic capital is limited, FDI will need to be the largest source. FDI has the added advantage that it is usually accompanied by an injection of new/western management expertise. Unfortunately, FDI in Georgia is very low - an estimated US $731 million over the period 1989 to 2000. Further, on a per capita basis, annual FDI fell from $44 in 1998 to $19 in 1999, below the

Eurasian annual per capita average of $24, and well below CEE standards. Unfortunately, the majority of foreign investors attracted to the high-risk investment environment in Georgia are either unable or unwilling to invest large sums of money in Georgia.

There are many reasons that investors, both domestic and foreign, do not invest in Georgia. While both domestic and foreign investors are discouraged by the realities of a volatile economy and uncertain rule of law, foreign investors are also discouraged by perceptions of Georgian business climate that may or may not be accurate. Based on discussions with private sector investors in Georgia (both foreign and domestic) and on information from donor sources familiar with local business, the major constraints to investment in Georgia are as follows.

- A perception of high political risk, including frequent changes in legislation and policies.
- An uncertain macro-economic environment.
- Perceived high levels of business risk resulting from observed failed joint ventures and broken business agreements where foreign investors believe they were treated unfairly. This leads to a lack of confidence in Georgians as trustworthy partners.
- Legal businesses confront high levels of taxation and this, combined with widespread illegal evasion of taxes by small domestic firms, makes large-scale international businesses less competitive.
- A small domestic market and insufficiently developed export market.
- Excessive and non-transparent government regulations.
- A weak and corrupt judicial system making contract enforcement difficult, and the protection of property rights uncertain.
- Insufficient information from companies being privatized to permit adequate due diligence by serious foreign investors.
- Finally, few Georgian companies are available for sale under conditions where foreign investors would be willing to invest. This is because of a general overvaluation of company assets by Georgian company owners and reluctance among them to sell a controlling share to foreign investors.

7. Inputs and Technology Employed

With respect to input supplies, an organized system of input supply and suppliers that reaches down to the village level has not fully developed to replace the former command system. Many agricultural production inputs (fertilizers, pesticides, herbicides) are difficult for the small farmer to find in Georgia. The country does produce nitrogen fertilizer at a plant in Rustavi, but is totally dependent on imports for phosphorus, potassium, and crop protection chemicals.

The capital stock of farm machinery in Georgia has decreased by 40-70 percent over the past decade with only very small numbers of tractors, combines and other pieces of modern equipment having been imported into Georgia since 1990. International machinery suppliers have no or minimal representation in the country. Domestic production of any agricultural machinery is extremely limited. The equipment that remains in use is generally in extremely poor condition, and kept working through salvage of parts from inoperable machines. What equipment is available is generally not suitable for small farms.

In part, the declines in production are a result of the decreased productivity that has come from reduced fertilizer use. There are no functioning government supply systems and fertilizer use is only about 10 percent of what it was in 1985. While fertilizer use in 1985 was not likely optimal since soft budget constraints did not necessitate efficient use of inputs, the current level of non-use clearly has very negative consequences for soil fertility, and crop productivity.

The use of crop protection chemicals (CPC) has similarly plummeted from levels of the 1980's. Fungicides for fruits and vegetables traditionally comprised 70-85 percent of CPC usage. Current usage is just over one percent of the quantity used in 1985. Almost no herbicides are currently applied and insecticide applications are also very low. Georgia has very limited pesticide production capacity and is almost entirely dependent on imports. All herbicides are imported.

Since 1990 the government-operated seed supply system in Georgia has largely collapsed. Annual seed needs in Georgia for grains and vegetables (excluding potatoes) are estimated at over 50,000 tons with requirements for "high" quality seed being about 25 percent of that amount. Potato seed requirements are 70-90,000 tons annually. Actual supplies are but a fraction of these levels. Some testing for registration of new varieties continues through the Variety Testing Commission, with interested parties covering the costs of testing. The two seed production organizations, Gruzzernosemprom and Gruzsortsemovaochch, were privatized in 1998, but almost all seed production has ceased and these farms are trying to survive as normal agricultural production units. The Research Institute for Crop Production, but they are producing a very limited quantity of seed. The Horizon Company, a Georgian seed company established with USAID assistance, is producing limited quantities of maize, sunflower, wheat and potato seed. This company produced over 450 metric tons of seed in CY 2000 and plans to produce 600+ tons in CY 2001. The Bolnisi potato seed growers, associated with the Dutch, are another group producing potato seed for sale. Small quantities of seed potatoes also come from other private farmers. Some vegetable seed is being imported through legal channels. Demand is also being met by illegal imports, though quantities are unknown.

The Assessment Team met with the two private sector organizations that have emerged since the breakdown of the Soviet system. Both Farmers Union and Analytica market and distribute inputs to small farmers; both also provide some limited technical assistance on appropriate use of the inputs they market. The Farmer’s Union provides farmers with technical information, seed, and CPCs through local peasant based distributors. Analytica supplies seeds and CPCs to farmers on a basis very similar to that of the Farmers Union. These firms cover a very small part of the country needs and claim that the principal reason farmers do not use inputs is because of cost.

Water is another important input for agricultural production in Georgia. The irrigation system that was developed during the soviet period has seriously deteriorated, both from neglect and uncertainty over operational responsibility. The regional Water Operation and Management Enterprises lack the resources to carryout the operation and maintenance of the system, and as a result the area under irrigation has declined from over 450,000 hectares in 1990 to less than 300,000 hectares by 1999. Only a few local Water User Associations have emerged.

8. Marketing

In the past, trade was coordinated through Moscow. With the break up of the FSU this is no longer the case, and trade relations between the now independent countries of the FSU are not yet fully operational. Nevertheless, Russia remains one of Georgia’s biggest trading partners and, along with other countries of the FSU, will continue to be Georgia’s most likely target market for

exports. However, exports to Russia and other countries of the FSU have plummeted in recent years, and in 1999 trade to the CIS countries was only 30 percent of the total Georgian trade.

Georgian producers and processors have not been very successful in developing new markets to replace those lost as the Soviet Union broke apart. Sanitation, packaging and quality standards in Western Europe make it difficult for Georgia to enter these potentially lucrative markets in the near term. On a cost basis, low farm yields and high processing costs result in high unit costs that make it difficult for Georgian goods to compete with goods from West Europe, Poland or Turkey. Poor packaging and inconsistent product quality and a general lack of marketing expertise have added to the marketing difficulties.

However, there are many acclimated crops that in Georgia would have a yield potential better than that in Western Europe or the CEE countries, and equal to that of Turkey, Azerbaijan and other countries in the region. With the proper inputs and technology, there is no reason that Georgia cannot produce acclimated crops with equal quality at lower costs, when compared to Europe and neighboring countries. Traditional Georgian yields have the potential to increase by a factor of 3 or 4 times with proper management and technology. Georgia will clearly have a seasonal advantage with earlier available production from the warmer zones and a longer harvest season by using the various micro-climates. This may allow Georgian exporters of fresh product to aim for niche periods when the competitors do not have product available.

For a limited number of agricultural products, there already are market outlets. Some milk producers are successfully marketing limited quantities of raw milk in nearby settlements. Nuts are being sold for export and grape juice can be sold to processors for use in the wine industry. For the most part, however, surplus vegetables, fruit, and milk is not being processed or being marketed beyond very local channels. With this decline in market, farmers have less income and little incentive to invest in inputs to increase productivity or improve the quality of their output. Local consumers, processors and export markets will only demand Georgian produce if and when the quality and consistency of supply improve.

Finally, to the degree that there is demand for agricultural produce, either domestically or for export, this information reaches producers only sporadically or through informal sources. No source of market information currently exists that would help farmers determine what to produce. Further, very few farmers have contract relationships with processors that could help orient their production program. Farmers with vineyards are more likely to receive advice because wineries work closely with them.

9. Transportation

Georgia is an integral part of the East-West transport corridor linking Caucasian and central Asian countries with the Black Sea. Georgia has a long established rail network of 1,583km that is fully electrified. The main route Baku-Tbilisi-Samtredia is largely double track. From Samtredia single rail goes to the ports of Batumi and Poti and to Russia via Sukhumi. The Armenian route is also important. To assist with the refurbishing of the rail sector the EBRD supported a $20 million rail link project that aimed to provide small scale upgrading of the Trans-Caucasian Railway.

Georgia's road network plays an important role in the Europe-Caucasus-Asia transport corridor. Also, Georgia is an intermediate link between Russia and the countries of the Middle East. The road system in Georgia counts 20, 298kilometers – international roads 1,474, internal state roads 3,330, and rural roads of significance 15,494. This road system is important to the movement of

agricultural goods, and in 1998 15 million tons of product (all types) was reported to have moved by road. In recent years, due to lack of financial resources, the conditions of motor roads have declined. In addition to the limited support by Government, the World Bank has been active in providing assistance for the reconstruction of roads in Georgia. The Bank has made, or plans to make available about $52 million under different loan programs for road rehabilitation.

Georgia's main seaports are Poti and Batumi. Poti's total port capacity per annum is currently about 7 million metric tons, and Batumi's is about 5 million metric tons. Poti is 9m deep and 30,000 BRT ships can enter. Batumi is 11m deep and a maximum 50,000 BRT ship can enter. Heavier ships are unloaded at sea. In addition to local transport forwarding companies, there are several foreign transport/forwarding companies successfully functioning in Georgia.

The transportation issues are not only related to the condition of the rail and road systems, but to the harassment that truckers seem to face as they travel the roads. It is very common for truckers to be stopped and asked for papers, and to pay fees that are assessed for some infraction that may not really exist. Also, when truckers cross borders to another country customs officials may check the vehicles and levy a fee. Therefore, not only do the poor conditions of the roads increase costs to maintain trucks, but also the road fees add another significant cost to transportation costs faced by groups trying to move agricultural products.

B. Summary of Principal Constraints

Georgian entrepreneurs face multiple constraints to starting, owning and operating a business, regardless of the size of that business. Some of the constraints are general in nature and some are more specific to individual sectors with some impacting producers for the local market more than exporters, and vice versa. Each of the constraints is well know and has been examined and described in detail in other documents.

Many of these constraints are being addressed by the Mission's assistance programs in tax reform, land reform, accounting reform, banking reform, capital markets, energy reform and enterprise privatization. Significant contributions to establishing an enabling environment for private enterprise growth have been made. Nevertheless, as can be concluded from the discussion below, further work in these areas remains.

The constraints below are divided into two categories – general constraints that affect all business and those constraints that are a specific problem for agricultural/agribusiness development. For the first category, the descriptions are quite brief with only a limited discussion of how they impact the agricultural sector. For the second category, the discussions are more detailed and relative priorities are established.

1. General Market Constraints

a) Corruption

As outlined in the September, 2000 Market Reform and Agricultural Assessment Report, corruption is widespread and endemic in Georgia. The 1999 Corruption Perceptions Index by Transparency International ranked Georgia 84th out of 99 countries worldwide. Corruption flourishes in part because the Georgian government is unwilling or unable to set and enforce transparent rules and laws. Extremely low government salaries also encourage corruption since they do not provide a living wage. Most businessmen see the payoffs and charges for what

should be free services as a cost of doing business and not something they can do much about. They also hope the situation will change in the not too distant future.

For the agricultural sector, the corruption ranges from road taxes arbitrarily imposed by the police to extra payments that are necessary to obtain operating permits or necessary licenses or certifications. Even when the necessary documentation has been obtained, the police and inspection agents are good at finding some reason to charge a fee.

b) Taxation

There are two major issues related to taxation. First is the high rate and multiplicity of taxes. There are VAT taxes, profit taxes, road taxes, social fund taxes, land taxes, transfer taxes, entrepreneur taxes, unemployment fund taxes, etc. Together, this combined tax rate can be as high as 67 percent of a products' cost structure.

Second is the administration of tax laws. The regular changes and ambiguities allow corrupt tax officials to extract unofficial payments and levy frequent and heavy fines for noncompliance. While most businesses have learned to cope with the uncertain tax regime, most also identify the amount of taxes they pay as a serious problem to the establishment of business.

For farmers and small businessmen, ambiguities in the tax laws and very frequent changes make understanding of the laws and what is required very difficult, let alone compliance. Most producers indicate they would prefer a single tax on land.

c) Customs

Georgian customs collections are reportedly less than 50 percent of what they should be. For Government budgets this is obviously a serious problem. While there are some positive price effects for consumers and well-connected businessmen, the porous borders also impact many local businesses and processors in several negative ways. Cheap, untaxed imports, particularly non-perishable or manufactured products, compete with local manufacturers and producers.

For the agricultural sector, local flour millers who pay up to 34.7 percent taxes on imported wheat are unable to compete with smuggled and untaxed flour. The import tax should protect the local miller and producer of wheat, but when a drought occurs and local wheat production is in short supply, it has the opposite effect, particularly when products are smuggled and do not pay the tax. The largest tea processor in Georgia does not supply the local market because untaxed imports are more attractive to local consumers. Egg and milk processors face a smaller market for much the same reason.

d) Banking

Banks in Georgia play only a small role in savings mobilization and as a source of financing for private sector businesses. Low capital bases, high interest rates, insider deals taking place, inadequately trained staff and difficulty in valuing collateral are just some of the problems. The number of banks is expected to decline further as higher capital requirements are enforced and banking regulation, training and improved legislation will, over time, result in a better functioning system. However, this is clearly a long-term process, and for the agricultural sector, the current commercial banking system will probably not be a dependable source of finance (see discussion below) in the next few years.

e) Energy Supplies

Current energy supplies are simply inadequate to meet needs with daily supplies to most users ranging from a few minutes to a few hours. While the impact on the general public of inadequate power is most often the focus of concern, there are also serious impacts on producers and processors. For some companies, energy costs are not a major production cost. But in almost all cases there is a need for reliable power on a regular basis. Without such supplies companies often face the choices of shutting down, holding food products at temperatures that are not safe, operating at an even lower level of capacity or seeking alternatives to existing grid supplied energy, often at a much higher price.

Many agricultural processors have already put in place generators to provide most or all of their energy needs. Unfortunately, the cost of such energy is often prohibitive. For example, a seed potato supplier the Assessment Team interviewed could not afford to keep his warehouse adequately cooled using a small generator, and has lost seed quality and quantity.

f) Confidence in Government

From the business perspective, government is generally viewed as something to be avoided. Government has not been able to provide needed services but has imposed additional costs on businesses. To make matters worse, government is perceived to be the cause of many of the constraints identified above. The Team found little confidence that the government would be able to improve their performance in the short-run. This same attitude holds true for the MOA, although people are not blaming the new Minister who is being given an opportunity to demonstrate results.

2. Agricultural Specific Constraints

In addition to the general business constraints identified above, there are a number of particular constraints impeding agricultural sector growth and supporting a drift toward subsistence level production. In some form or manner, some or all of these would logically be the focus of any agricultural sector assistance effort. They are discussed below in the order of priority.

a) Marketing

For the Assessment Team the lack of marketing systems was identified by Georgian producers and value-adding organizations as the number one constraint being faced. Since the breakup of the FSU, the old system of state marketing has ceased to function. Unfortunately, effective, alternative systems have not yet emerged, constraining both domestic and export marketing potential.

There are numerous aspects to the marketing problem. The identification of realistically potential markets is seemingly the most serious problem, but Georgian producers and processors also have difficulty identifying and establishing trading relationships with distributors. Successful exporters often depend on personal contacts in cities to which they are exporting. Additional problems include a lack of reliable market information, and the inability of Georgian producers and value-adding organizations to meet the quality and food safety requirements of both domestic and export markets.

This latter problem will become increasingly serious as Georgia seeks to enter more sophisticated Western markets with higher standards. However, the Assessment Team found only limited recognition of this problem.

The lack of market information system in Georgia is a constraint to farmers as well as agribusiness. To make production and marketing decisions farmers need information on commodity prices, as well as on the market outlook for commodities at local, regional, national, and world levels. Sources of this information are currently very limited in Georgia. Since most farmers are small it is difficult for them to obtain this information unless it is being provided by government or producer organizations.

Output marketing is a problem at three inter-connected levels. At the raw material or farmer production level, farmers can generally gain access to inputs required if funds are available. However, most small farmers do not produce sufficient volumes to permit effective marketing. Farmers become locked into what they know how to produce to provide a subsistence, or produce what they were able to sell on the open market last year. Georgian farmers rarely produce to meet a pre-arranged contract with packers or processors. Small farmers also need help in organizing their production and marketing efforts. The Gori Apple Growers Association is a hopeful example of how associations could fulfill this role. Unfortunately, such examples are still rare.

At the village level, surpluses of many fruits, vegetables and milk are simply not packed for the fresh market and/or processed. There is simply no demand at any price and perishable products spoil. The lack of buyers in turn reflects the decline in processing as a result of markets being lost and the quality improvements necessary to recapture old or to penetrate new markets. Unless the quality and consistency of supply of domestically produced commodities improve, processors, local consumers and export markets will not increase their demand for Georgian products.

At the export level, Georgian processors and value-adding organizations lack information and the know-how to compete effectively. Certainly, they are constrained by old equipment, inadequate operating and investment capital and a sometimes unfriendly business environment. However, the lack of experience in operating in a highly competitive global market is equally large if not a larger constraint.

Finally, the small size of the domestic market is often a constraint. For many crops, the domestic market is much smaller than current production potential. Limited incomes and the fact that many households produce and process at least part of their own food means that many people do not buy commercially prepared foods. While there is potential for development of import substitution in some products, expanding export markets will be necessary to create adequate demand for agricultural sector growth.

b) Finance

The lack of finance is a serious constraint for agriculture/agribusiness as it affects input suppliers, producers, and processors (value-adding organizations). To gain an idea of just how limited agricultural financing is in Georgia, the Team examined the difference in the volume of agricultural credit in the U.S. and Georgia. Georgian agriculture's contribution to GDP is about $700 million annually. In the U.S. the farm sector excluding food and fiber processing provides about $70 billion to GDP or 100 times as much as in Georgia. In the U.S. annual non-real estate farm debt is over $80 billion while in Georgia comparable agricultural credit amounts to an estimated $10 -15 million. If U.S. levels applied, the Georgian farm sector would need credit at a

level in excess of $700 million annually. Obviously such an amount is not going to be available anytime soon, but this comparison helps to illustrate the magnitude of potential agricultural credit needs in Georgia.

Large-scale agricultural processors are able to source limited credit from commercial banks through the World Bank and IFC credit lines and the AgroBusiness Bank (recently founded by the European Union). However, volumes are small, collateral requirements high and interest rates discouraging.

Nevertheless, while the situation is not good for agricultural processors, it is even less favorable for small-scale agricultural producers where the primary source of funds for agricultural/ agribusiness loans comes from special loan funds such as the rural credit unions, ACDI/VOCA, WB/MOA fund, and the AgroBusiness Bank. The ACDI/VOCA program with nearly $2.0 million in loan capital (and over 700 loans) and the Agro-Business Bank with over $2.5 million in loans outstanding are apparently the two largest lenders and they reach only a tiny percentage of potential borrowers.

With these realities it is not surprising that financing was the second most serious problem mentioned by producers/processors. Without adequate access to credit, it is difficult to see how a vibrant, export-oriented system supplying markets with value-added products will emerge. The problem must be addressed, as it is a major constraint to development of the sector.

c) Investment

The Georgian private sector has experienced very little investment, and particularly very little FDI. Without increased levels of investment, the agricultural/agribusiness sector, as well as many other sectors, will remain stagnant. The necessary modernization and re-capitalization requires millions of dollars that financial institutions alone will not provide. As mentioned above, while FDI can be an important source of this investment capital, foreign investors also often provide management skills, technical know-how and linkages to new markets that can result in increased agricultural/agribusiness exports, as well as favorable international trade agreements. For example, the World Bank notes that the agricultural commodity-processing sector in Hungary received a total of US $3 billion, or US $300 per capita, in FDI between 1990 and 1999.

See Section III.A 6. above for reasons why investment is occurring only slowly.

d) Input Supply

As mentioned earlier, an organized system of input supply and suppliers that reach down to the village level has not fully developed to replace the former command system. The parastatals and privatized companies that emerged from reorganization of the former agricultural input supply system are not effectively operating and new systems suitable for a market economy have not fully emerged. Therefore, the availability and cost of inputs make access very difficult for farmers and organizations and associations working with farmers. The limited access to inputs is cited as a barrier to increased productivity.

A couple of private sector companies have been marketing inputs such as as fertilizers and pesticides to farmers. They estimate, however, that they are meeting only about 10 percent of the demand. Quality seed is also in short supply in Georgia, and for grains and vegetables (excluding potatoes) the need is estimated at over 50,000 tons with requirements for "high" quality seed (purchased seed) being about 25 percent of that amount. Potato seed requirements are 70-90,000

tons annually. Based information gathered by the Assessment Team, local seed suppliers do not produce more than 400 tons of "high" quality grain seed; and not more than 600 to 700 metric tons of potato seed.

At the farm or village level, the low grain, vegetable and fruit yields realized suggest that technology being employed is not the latest available. Dairy and poultry productivity, as mentioned earlier, is also extremely low. There are very few, readily identifiable sources of new technical and market information for farmers at the village level. However, according to farmers interviewed in various regions, a lack of information on better agricultural practices is not their key constraint at the moment. Fruit and vegetable growers, grape growers and milk producers all mentioned output markets, marketing, and finance at reasonable rates to be more important constraints[11]. If financing was available at reasonable rates input supplies and technical information could be obtained and go a long way toward removing this constraint. Clearly improved practices need to be introduced, but in balance with establishment of markets for their agricultural output.

The poor condition of machinery is having an impact because land and seedbed preparation is a significant factor in productivity. Moreover, increased demand and more efficient production, consistent with expanded production and processing goals, will render the current equipment pool inadequate without some replacement. Again, the primary barrier to use of better equipment is the lack of financial resources to permit timely and effective purchase. Often times to improve the farmers' ability to purchase equipment they will need to form associations that purchase what they need.

It is expected that increased use of inputs of all types, including seed, will be a gradual process based on farmers learning and seeing the benefit of input use, and their improved ability to pay for the inputs. Some government research efforts, and World Bank efforts to support "adaptive research and information transfer to farmers" rather than just basic research will help increase input use. EU-TACIS is planning a limited program of assistance aimed at providing extension service assistance to farmers, and this could help bring about some change in input use. However, the private sector packer or processor interested in obtaining raw materials from farmers will be one of the biggest engines for teaching farmers changes in production practices, and use of inputs. Through USAID assistance to these private sector entities benefits will accrue to farmers.

e) VAT Taxation

The general issues with taxes, tax levels and tax administration are outlined above. However, the Minister of Agriculture and others have identified the VAT tax as a particular problem for Georgia. In reality few producers pay the VAT tax. Most producers benefit from a threshold application level of 24,000 lari per year. However, it is argued that such a level acts as a disincentive to combine plots or farms and may actually encourage farming at a sub-optimal scale. For those smaller farms under the threshold using inputs there is also no means to reclaim taxes on inputs so they may actually be paying more VAT taxes than larger farms. Further, since

11. In making these assessments what farmers and growers may not realize is that the levels of on-farm technology currently employed will probably not result in products that satisfy the quality and standards required by international markets. To meet those standards will require adoption of new production technology. It also requires that producers be willing to accept totally new practices and technology if they are going to be competitive. Many farmers will not understand the technology involved. The packer/processors will need to work extensively with growers to produce the quality and yield required for Georgian farmers to be competitive.

little VAT is actually collected from the sector, there is a question of whether it is worth the effort.

From the viewpoint of the Minister of Agriculture, the VAT on agriculture has two other negative effects. Since neither Armenia nor Azerbaijan apply such a tax, it puts Georgian production at a disadvantage in regional and international markets i.e. Georgian products will cost more to produce and may be non-competitive. In turn, this makes Georgia less attractive as a place to invest than these other countries, particularly since foreign investors would not fall under the threshold and would probably not be able to avoid the tax.

From a cost of production and investment perspective, the Assessment Team believes the VAT tax does have a disincentive effect. It may also be more efficient and less distorting to replace it with an increase in the land tax. At a minimum this issue needs further examination in light of costs of collection, amounts actually collected, impact on tax consistency and IMF agreements and the degree the VAT tax is an important consideration in investment decisions.

C. Current and Upcoming Agricultural Sector Support Efforts

1. Government of Georgia (GOG)

The transition in the agricultural sector from a Soviet system that relied on the Government to provide services of all kinds to a market-driven model with a more limited state role is underway, but incomplete. The Georgian Ministry of Agriculture (MOA) reportedly still has over 4,000 employees.[12] According to official data, dozens of state organizations also remain functional. Far fewer actually operate. Some of this array has been fully or partially privatized with the remainder providing no, minimal or limited services. The Departments of Amelioration and Water Economy and Veterinary Services appear to be the most active.

General Government of Georgia budget constraints will make the inauguration of any new agricultural sector initiatives difficult without external support. There may be some savings from downsizing and the possible privatization of MOA assets, but at least in the short-run these are likely to be needed to pay for actual downsizing costs. The MOA would like to embark on the establishment of an extension system, but the Assessment Team is not convinced that this is the highest priority. Such a system would certainly not be financially sustainable in the short run.

One area where the MOA might be advised to devote some additional resources is to the provision of market information. This is a legitimate government function with important benefits to all segments of the agricultural production and agricultural consuming/exporting community. The Team would support a modest initiative in this area.

2. U.S. Assistance

a) Introduction

Since the beginning of USAID assistance to Georgia in 1992, support to the agricultural sector, excluding land reform, has been relatively modest. Earliest assistance was largely in the context of humanitarian aid and included provision of maize, wheat and potato seed, training and farmer-to-farmer volunteers. Internally Displaced Persons (IDPs) and small farmers in selected

12. The new Minister of Agriculture has recognized the necessity of restructuring the MOA to meet the needs of a market-driven agricultural sector and has requested foreign assistance in doing so. This assistance package is discussed in detail under U.S. Assistance below.

geographic areas were particular targets for inputs, credit, training and technical assistance.[13] A U.S. investor in wine processing also received a small grant to cover a portion of the technical assistance, management and initial operating costs involved in the establishment of a joint venture.

More recently, agricultural sector specific assistance via humanitarian and other USAID programs has been provided. Business development programs have also begun to focus on the agricultural sector. The currently on-going programs are described below.

b) Georgian Enterprise Support Project (GESP)

The primary goal of GESP is to stimulate economic growth by improving efficiency, enhancing production, improving market channels and providing better access to capital for Georgian enterprises. Focused primarily on providing assistance to small and medium enterprises (SMEs), this three year project is being implemented by Sibley International. The project is active in Tbilisi and has established regional offices in Kutaisi and Telavi with a third location under consideration. The current Project Activity Completion Date is February 2003.

Within the project four program areas are being emphasized. The first is legal/regulatory reform. By supporting business advocacy groups, linking advocacy groups to policy makers, expediting changes to appropriate Georgian laws, promulgating and enforcing laws and regulations that uphold shareholder rights and enacting the audit law, the Project seeks to establish a better policy environment for business. The project will also help create systems that can continue this process after project completion.

The second emphasis area is developing the capacity in Business Support Organizations to provide services for which the private sector will pay. The project will also develop the market for such services by establishing appropriate associations or other business groupings and helping these groups and individual firms establish links with support providers. This involves selecting entrepreneurial business service providers, identifying suitable enterprises for assistance, helping create market-demanded business services and building the capacity of business service providers to deliver training and services.

Assisting firms with gaining access to capital is the third project emphasis area. By supporting existing credit institutions, helping with the privatization of some remaining enterprises and promoting corporate governance and shareholders rights, the project expects to increase loans and promote the use of the Georgia Stock Exchange as two sources of capital.

Finally, the project supports a public education campaign to increase public awareness of important private enterprise issues. Ensuring press and media coverage, educating local officials, educating business owners and managers and general public education are import aspects of this component.

Though GESP does not specifically focus on the agricultural sector, the Project has already helped establish a Wine Growers and Processors Association in Eastern Georgia. They will be providing specialized technical and business training to members of the organization. Consideration is being given to helping establish a similar agribusiness focused association in Kutaisi – perhaps an association of agricultural processors.

13. Several NGOs continue to provide assistance to small farmers in specific geographic areas, often using funds from the monetization of USDA provided commodities.

c) Seed Enterprise Enhancement and Development Project (SEED)

Through funding provided to Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), USAID is supporting the development of the agricultural seed industry, and the establishment and operation of agricultural production credit associations. The seed industry assistance established a private seed company (Horizon Ltd.) that is currently producing and marketing potato, maize, wheat and sunflower seed. Production in CY 2000 totaled about 460 tons of seed with a target of over 700 tons in CY 2001. Limited continuing assistance to the company aimed at increasing its financial viability will end on September 30, 2001.

With USAID assistance, six production credit associations have been successfully established in six regions by ACDI/VOCA and over $1,500,000 in loans is currently outstanding. The repayment rate is almost 100 percent. USAID support for this activity via the SEED Project ended on September 30, 2000. However, for the purpose of assisting drought affected farmers additional USAID-supplied funding for the credit program was provided in September 2000 via a sub-grant from Save The Children. This grant will end September 30, 2001.

From July 1999 to September 30, 2000, the ACDI/VOCA program made almost 350 loans benefiting nearly 3,000 individuals. For these production and processing loans, the interest rates averaged 18 percent with most loans of one year or less but a few of up to three years. Loan sizes ranged from a few hundred dollars to one loan to the Gori Fruit Farmers Association of $80,000. About 250 loans will be made in three regions under the drought program at 18 percent for one year.

d) Ministry of Agriculture Restructuring

The USAID Mission in Georgia currently supports an effort to restructure the Georgian MOA. The MOA is structured, organized and staffed to carryout Soviet style command and control activities throughout the agricultural sector. Severe budget constraints over the past several years have resulted in some down-sizing (recently another 10 percent) in the MOA and many previous functions and activities are no longer being carried out. However, an inappropriate structure remains, overstaffing continues, and clear lines of responsibility, transparent practices, and fund accountability are lacking.

The new Minister of Agriculture is determined to privatize many of the functions that are a carry-over from the Soviet era. These include the operation of state farms for various purposes (livestock breeding, seed production, etc), the provision of equipment and services, the conduct of a full range of research and marketing services, and rural community support. This implies further down-sizing of the MOA in terms of personnel, assumed responsibilities and budget, as well as restructuring to enable the MOA to implement policy-making, regulatory, monitoring and other appropriate responsibilities effectively.

The MOA restructuring project was developed in response to a direct request from the Minister for assistance in this effort. The project was designed for implementation in two phases - a 3-4 month initial phase for assessment and plan development, and an implementation phase that could last up to one year. The project team consists of one expatriate senior resident advisor and a small Georgian professional and administrative staff. Short-term expatriate specialists in agricultural administration and other topics will be brought in as necessary. Phase I began on February 5, 2001.

The resident advisor will be a liaison to other donors such as World Bank and EU. The World Bank has expressed interest in funding activities that will coordinate with and support the USAID restructuring effort. They intend to fund an inventory/audit of MOA assets, the salaries of a small policy staff to advise the Minister, and possibly some training for re-assigned MOA staff. The EU has been supporting the MOA operational budget and has already begun work on restructuring activities.

The beginning of the MOA restructuring project has coincided well with the completion of the Barents Group review of the MOA's expenditures under the auspices of the USAID fiscal reform project. This review provides an excellent starting point for the restructuring effort by providing an initial overview of department functions, assets, budgets and expenditures. The restructuring project will also be able to utilize the program capacity of the Overseas Consulting Services to conduct the necessary public relations for the MOA. The Minister has already received assistance in conducting public meetings regarding changes in tax policy. [14]

e) Land Market Development

USAID/Georgia has made a significant contribution to enabling the policy and business environment through its support to the land market development project. Work on this project was completed under two successive task orders with Booz, Allen Hamilton (BAH) from late 1997 to fall 2000. Working in 38 of the 65 raions, the land market project surveyed, registered and titled over 1.2 million agricultural parcels. The project also assisted in the privatization of enterprise land for approximately 6,500 of the estimated 10,000 privatized and newly-formed private enterprises throughout Georgia. Of the remaining enterprises, many are not operating or viable and therefore do not have the resources of incentive to privatize their land. The land project team estimates that fewer than 2 million agricultural parcels still need to be titled and registered.

In order to enable development of the land market, the land team identified technical and bureaucratic impediments to land titling, registration and the full range of private ownership. In addressing these impediments, the team used various methods, including public education efforts; training for staff of State Department of Land Management (SDLM); establishment and training of surveyor-subcontractors and real estate agents and advising key officials in the Georgian Parliament and Chancellery on land policy. To promote the longer term sustainability of land market institutions, the project supported the establishment of 35 independent surveying companies with approximately 1,200 contractors and 5 independent real estate companies with approximately 75 contractors. The team's real estate contractors facilitate and track secondary transactions—sales and leasing—of both agricultural and enterprise land. The project also supported the development of a Georgian NGO—the Association for the Protection of Landowners' Rights (APLR). The relationship between the BAH land project team and APLR

14. During this assessment, the Team met many agricultural producers and processors. When asked their opinion of the MOA, most people were critical. Although they speak more favorably of the new Minister, most see the MOA as irrelevant at best, and at worse as corrupt and a hindrance to their production and processing endeavors. The proposed restructuring is an opportunity to change the functions of the local MOA branches so that they are a resource and provide needed services to agricultural producers and processors. The Assessment Team recommends that the Minister and his officers be encouraged to hold public meetings in communities across Georgia to solicit input on how the MOA could better serve and build support among constituents.

was symbiotic, and by summer 2000 responsibility for many activities, such as public advocacy and education, had been transferred to APLR.

The last task order with BAH ended in fall 2000. USAID/Georgia decided to continue its support of land market development, but using a different approach and contracting mechanism. The Mission decided that APLR had achieved a sufficient level of technical proficiency be the primary implementer of the land market project. APLR, however, is not evolved enough organizationally to receive a grant directly from USAID. To address this weakness, the Mission considered a model by which a Western NGO would provide financial oversight to APLR, as well as assist in the development of professional associations and an umbrella SRO associated with land issues. Terra Institute, an American NGO that specialized in land tenure issues, submitted a proposal that meets the needs of the Mission from a technical perspective. Complications with contracting have delayed in the finalization of the new Cooperative Agreement, however, and this has led to the cessation of work on titling and registration. While a short-term purchase order with APLR has enabled retention of the core land team, the cessation of subcontracting work puts the completion of this highly successful project at risk.

f) Humanitarian and Other Programs

Under both its economic reform and its humanitarian response programs, USAID/Georgia has been managing a series of US dollar and local currency grants to a wide range of non-profit agencies. Several of these programs provide credit and business advisory services to micro, small and medium scale entrepreneurs and farmers throughout Georgia. Others provide extension information to specific groups in targeted geographic areas, while a number or grantees have been actively engaged in seed and credit provision as part of drought relief efforts. There are currently many such initiatives under way. Implementers include: ACDI/VOCA, SCF (Save the Children Federation), IOCC (International Orthodox Christian Charities), UMCOR (United Methodist Committee on Relief), World Vision, IFRC (Red Cross), CARE (Council for Assistance and Relief Everywhere), IRC (International Rescue Committee), Shore Bank, FINCA (Foundation for International Community Assistance), Constanta (Save the Children), and ADRA (Adventist Development and Relief Agency).

The degree to which these organizations work in the agricultural sector varies greatly. ACDI/VOCA, IRC, UMCOR, CARE, and IOCC have specific agricultural assistance activities. All are focused geographically within Georgia and on identified communities in their selected regions. The other organizations may reach agricultural producers with small amounts of credit or sub-elements of their programs dealing with food security, community development, income-generating activities, etc. Because some activities in these areas will undoubtedly be continued and are largely developmental in nature, it will be important for USAID/Tbilisi to ensure that there is coordination between any larger-scale agricultural activity that might be undertaken and these other NGO-implemented activities. Possible linkages with these activities if a larger scale agricultural program were undertaken will be discussed as part of the options section below.

3. Other Donors

a) Introduction

A number of other donors, including the World Bank, EU-TACIS, the British DFID, IFC, Germany, the European Commission, Japan and the Dutch also provide assistance in the agricultural sector. The European Commission, EU-TACIS, Japan and the World Bank have been the most active.

b) The World Bank

Through the $26.8 million Agricultural Development Project the World Bank is currently involved, in cooperation with the International Fund for Agricultural Development (IFAD), in providing financial support for credit unions ($6.5 million) and in financing land registration in two raions ($6.0 million). The Project also includes supplying credit through Georgian Banks for agro-processing ($10.4 million) and in miscellaneous activities including training, project preparation and small farmer activities ($3.9 million). Another $7.0 million is being provided under a competitive grants program for applied research and extension, and training. A new irrigation and drainage project is under appraisal. The first phase of four years will cost between $14-20 million. Implementation could start as soon as January, 2002 or, if the project is not submitted to the World Bank Board before June 30, 2001, it may be delayed until 2003 or even later because of other (non-agricultural) projects in the pipeline.

The World Bank is also interested in funding activities that will contribute to the restructuring of the MOA. They expect to fund an audit for the MOA shortly, follow that with an inventory of MOA property, and are seeking to provide two years of funding (approximately $300,000) for a policy reform advisory unit in the MOA.

c) EU-TACIS

At an earlier stage EU-TACIS funded numerous programs focused on the agricultural sector. These included programs to establish four regional agribusiness training and consultancy centers, the utilization of monetized food aid for agricultural credit through Georgian Banks, regional agricultural reform and training and short-term technical assistance to specific enterprises. These activities have all ended.

Currently, EU-TACIS is supporting the Georgian Export Promotion Agency (GEPA) which includes agricultural products in its program of assistance. GEPA provides export information, training, market profiles, supports exhibitions overseas, organizes overseas study tours, publishes a newsletter, operates a website and has published a directory of exporters. They have also helped form an Association of Georgian Exporters.

Some reflows from the monetized food aid mentioned above (about $7.0 million) have also been used to capitalize the AgroBusiness Bank that is now operating in Tbilisi with branches in Gori , Tsnori, Telavi and Marneuli. The main functions of the bank are to provide credit in various forms to the agricultural sector and to accept deposits. The Bank eventually plans to have 25 branches throughout Georgia. Over the past 12 months they have made over 160 loans totaling $2.8 million to including agricultural producers, processors and retailers/traders.

d) European Commission

The European Commission's Food Security Program in Georgia is the largest program of donor assistance to Georgian agriculture. The program funds most of the MOA operational budget, excluding salaries and social costs, on a reimbursement basis. Disbursements of funds are conditioned on the fulfillment of an agreed upon set of conditions. The program started in 1996 and was originally budgeted at about $15 million per year for four years. However, actual reimbursements have been lower. A decision on whether or not to continue the program will be made later this year.

Under the program a technical advisor has set up a budgeting system for the MOA and has recently established a monitoring unit. He is also engaged in some MOA restructuring activities as part of the conditionality for disbursements.

e) Germany

In years past Germany through GTZ and KfW provided a considerable amount of assistance to the agricultural sector. These included activities in seed supply, technical assistance, farmer organization development, credit lines for privatized enterprises and training. However, nearly all of these activities have been completed with only an activity in cadastral system development and land management continuing.

f) Japan

Since 1997 Japan has provided about $9.1 million in grants to Georgia for fertilizer, agricultural machinery and related transportation costs. With these funds over 100 combine harvesters, 75 tractors and 7,300 metric tons of fertilizer have been imported.

g) Other

IFAD, the FAO, The Netherlands, the United Nations World Food Program (WFP) and the United Nations Development Program (UNDP) also provide assistance directly or indirectly to the agricultural sector. As indicated above, IFAD has supported credit union development and land registration in collaboration with World Bank. They will soon begin implementing a project focused on the development of mountainous regions in Georgia. The Netherlands has supported dairy development in a highland area of Imereti Region and the development of a potato seed enterprise in Bolnisi. The FAO has provided technical assistance and/or training in a number of areas such as seed protection, grasshopper control, agricultural training, food security and viticulture rehabilitation. The WFP has supported several food for work programs that targeted irrigation canals, rehabilitation of tea and citrus plantations, land reclamation, drainage and feeder road rehabilitation. UNDP has provided support to the Georgia Investment Center (GIC). This project, however will be transferred to EU/Tacis next year. The GIC has already begun working collaboratively with the EU/Tacis-supported Georgian Export Promotion Agency, described above.

IV. Assistance Options

In this section, three agricultural sector assistance options are outlined. They represent what the Assessment Team believes are real alternatives along a spectrum of possibilities. For analytic and clarity purposes each is presented as a "stand-alone" option, although numerous permutations are clearly possible. The Assessment Team also considered numerous other alternatives before deciding on those presented below.

A. No Additional Assistance (NAA)

The NAA option is in effect a holding action that postpones any expanded agricultural sector assistance efforts. Under this alternative, the ACDI/VOCA SEED and Credit programs would end September 30, 2001 as currently scheduled. Humanitarian programs focused on agricultural development, such as the UMCOR Agricultural Development Activity in West Georgia and the IOCC Credit Program in Eastern Georgia, would continue as would on-going activities under

GESP that include or specifically target the agricultural sector. The work underway related to restructuring of the MOA and the planned support for land market development would also continue, but no new initiative expanding the level of support for the agricultural sector would be initiated.

The Team identified four reasons Mission management might conclude that this is the best current option. The first would be a judgement that the current program of USAID assistance to the agricultural sector is sufficient given budget constraints and in recognition of competing demands for resources. A second reason would be the belief that reform of the policy environment necessary for meaningful agricultural business development to occur is not yet completed. Third, would be the conclusion that other donors are providing assistance to address constraints to agricultural sector growth with no unfulfilled need for additional assistance to the sector. Finally, a new activity would add a new management unit at a time when the Mission wants to reduce management units.

While there may be validity to some of these points, the Team found compelling evidence that counters these arguments and supports greater engagement by the Mission at this time.

First, considering the Mission's objective of assisting the private sector, the current level of USAID assistance does not represent a program of support commensurate with the importance of agriculture/agribusiness to the Georgian private sector now and in the near future. Nor does it capitalize on the potential of the agricultural/agribusiness sector to be an engine for broader economic growth and as an effective means of having people level impact. Further, many of the current agricultural sector assistance activities (i.e., ACDI/VOCA and drought relief activities) are soon ending. Design of a new activity needs to be begun soon in order to avoid a significant gap in USAID assistance to the sector. If the USAID/Tbilisi waits for programming directions to be indicated by its MOA restructuring project or GESP, the Mission runs the risk of losing credibility when it expresses an intent/interest in supporting agricultural/agribusiness sector development.

Second, there are indications that the current policy and economic environment will support expanded business activity. In many instances, people have found ways around tax, customs and other administrative constraints, and are initiating successful business activities. The emerging private sector entrepreneurs in the agricultural/agribusiness sector are setting an example for their neighbors and fellow businessmen. These entrepreneurs should be assisted in these efforts for growth reasons and to increase the input/impact they can have in influencing policy change. Also, for USAID and other donors, active engagement with enterprises can often be one of the best ways to understand the nature and extent of the problems constraining business activity, particularly at the local level but also at the national level. This understanding, in turn, can further inform the Mission's other policy reform efforts.

Third, serious gaps still remain in the donor assistance directed at key constraints in the sector. USAID and other donor programs have made a significant contribution to improving the policy and economic environment in which agricultural sector development will take place. However, completed and current programs do not adequately address the range of constraints that limit growth in the agricultural sector. Many are short-term or narrowly focused. They are not comprehensive and most are not focused on meeting private sector needs.

Further, the recent World Bank Agricultural Sector Update identifies exports as the most likely source of increased demand for agricultural products and therefore a key driver for broader economic growth. A successful export-oriented development strategy, however, will be

dependent on the Georgian agricultural sector's ability to produce and market high quality, well-packaged goods that meet international standards. At the moment, no donor program is focused on agricultural market development, food safety and standards, or commodity packing and processing, all critical elements in being able to export value-added agricultural products.

Finally, following an NAA strategy reduces the role USAID/Tbilisi could play in facilitating private sector initiatives to overcome barriers to production, trade and investment, and takes away a significant portion of the leadership USAID might provide. It also does not recognize that the agriculture/agribusiness sector is an effective means of achieving people-level impact - something the Mission has indicated should be a priority for new activities.

B. Targeted Infrastructure and Services (TIS)

A second option that USAID/Tbilisi might reasonably consider would be to continue the on-going agricultural sector activities outlined above and to provide additional resources to a recent, current or planned agricultural sector related activity in the USAID/Georgia or other donor portfolio. For example, additional support to the ACDI/VOCA Seed Development and Credit Activity could be provided. Limited additional support for one-two years would allow an expansion of geographic area or sub-sector coverage. An extension to this activity would also allow more time for institutional development and establishment of the credit associations, which would increase the likelihood of the associations' sustainability. Another program that might be built upon is the very effective irrigation rehabilitation activity undertaken in three districts of Georgia by CARE. Since the model has been developed, it should be fairly simple to expand the program to new districts and regions. Such assistance would address, at least on a limited scale, the serious problems associated with the deteriorating irrigation system. The Mission could also choose to reorient or expand current programs to better promote agricultural development. For example, GESP could be asked to concentrate their business and associations development assistance on agriculture.

Other bi-lateral or multi-lateral organizations such as the World Bank would probably also welcome the addition of USAID grant funds to support some of their activities. For example, if the planned WB irrigation project is undertaken, on a parallel basis USAID funds could be added and used for the development of water user associations and other technical assistance. Similarly, USAID funds could be used to accelerate or expand WB efforts to restructure the agricultural research and extension system in Georgia.

The rationale for the TIS approach is that it builds on existing knowledge and experience, and potentially provides quick and tangible impacts on rural residents. Such an approach could be expected to address at least one concrete constraint to longer-term agricultural development. TIS would also be fairly easy to establish and manage since existing implementers would be used and a new management unit would not be necessary. Finally, such a program could be tailored to the amount of funding available. Certainly this option could provide needed and helpful assistance to the agricultural sector.

The Assessment Team does not recommend this approach, however, for several reasons. First, the TIS option is largely reactive rather than proactive, in that any program would be built around what other assistance implementers are already doing rather than on a strategic approach to promoting growth in the sector. It does not offer very much opportunity to be innovative and almost certainly limits USAID involvement to a smaller range of alternative assistance activities.

Nor does the option necessarily take significant advantage of USAID knowledge and experience. USAID in effect relinquishes leadership in promoting development of the sector. [15]

Second, the selective and limited nature of this option would not address the constraints to agricultural sector growth on any kind of an integrated basis. Even if several elements are supported, the TIS option is not comprehensive but a piecemeal approach. It would only support selected elements of what is needed to improve sector performance rather than attempting to simultaneously reform and develop several elements of agricultural/agribusiness sector. Synergies and complimentarities would be reduced.

Third, if programming is accomplished through existing NGOs, targets and expectations for activity impacts would probably be limited to a regional or restricted geographic area rather than a national level since that is where they are working. Certainly assistance at this level is important, but a program that uses activities with local level impact to provide input into national level policy reform would seem to be more effective. In this way, the project contributes more broadly to USAID/Tbilisi's efforts to shape national policy reform and to develop, demonstrate and apply broader development models.

Fourth, "buying into" activities led by other donors such as the World Bank is often fraught with delays, requiring extensive negotiation and management to ensure that USAID development objectives are met. Developing water user associations for the World Bank's irrigation project means waiting until the infrastructure work has been started, but the project itself is at risk of being delayed by a year or two. The objectives of the WB agricultural research and extension program may not be fully consistent with USAID/Georgia objectives in assisting the downsizing of the MOA.

Finally, the TIS option really does not build on the improved policy environment that the Assessment Team believes exists and that will permit the effective use of additional resources. Nor will TIS, depending on the activity supported, necessarily reinforce or inform further policy work.

C. Value-Added Enterprise Growth (VAEG)

Another programming option that was considered was the development of a new activity to support agricultural sector development. While acknowledging that further policy reform needs to take place, this program approach would not wait for completion of all policy work or perfection of the business climate before engaging with the enterprises. Instead, it utilizes engagement at the enterprise level to inform and leverage further policy reform.

The primary target for the assistance would be the agricultural value-added packer/processor system and the upward and downward linkages critical to the system's success. Such a multi-level approach recognizes that improving any single element of the agricultural/agribusiness system often requires parallel improvements in other elements. The

15. The exception would be a significant add-on or amendment to an on-going activity such as the GESP project. Such an add-on or amendment could probably include many of the same elements as a new activity. However, after reviewing on-going activities the Assessment Team concluded that such an approach would either require a major reorientation for all projects or the development of almost a stand-alone activity. For GESP particularly, including a new component, would also increase the complexity of what is already a very complex project and probably hurt both efforts. Finally, such an approach would probably not be consistent with the original solicitations for assistance implementation.

objective is to help create product to market systems that will increase demand for agricultural commodities and increase the return on those commodities through value-adding activities. These systems facilitate the flow of information, financing (i.e., credit, payments, etc) and product between producers, producer associations, value-adding packers/processors and consumers.

This option has three advantages. First, the approach takes an integrated approach in dealing with constraints facing agricultural sector growth of specific products or groups of products. In so doing it recognizes the inter-related nature of the value-added, input and output market constraints of the agricultural/agribusiness system and enables a coordinated effort with activities to bolster competitiveness and the systems needed to maintain competitiveness. It acknowledges that assisting agricultural producers increase output through new technology, training or increased input-use only makes sense if markets for the agricultural output exist, i.e. Georgia is competitive. Moreover, it helps make the processing industries more attractive to investors since problems of an adequate supply of high quality raw materials along with needed systems to support and facilitate market access are addressed.

Second, it removes as a constraint the limited size of the Georgia market for agricultural and food commodities/ products. The domestic market alone can only absorb limited quantities of value-added products and will therefore not support very much growth in output. At the same time, Georgia's geographic location at some distance from most larger markets, and the higher transportation costs implied, make products with considerable value-added more attractive. The VAEG option recognizes these realities and emphasizes assistance activities that will boost exports of value-added products with more limited attention to import substitution products such as milk or eggs or livestock feed enhancing products such as soy meal.

Third, the option builds on U.S. expertise and the comparative advantage this gives USAID in providing assistance in this area. The U.S. has the full range of experience needed to succeed with assistance to agricultural value-added activities and in developing the systems that are part of such systems. As the world's largest agricultural exporter with the lowest domestic food prices of all OECD countries, the U.S. agricultural system produces cheaply and knows how to supply export demand. The support system of private agricultural organizations in the U.S. - including producer associations, credit institutions, processor associations, grades and standards monitoring groups, trade development bodies - that facilitate production and exports is also unmatched around the world. This option would make use of this expertise and organizations that have already successfully transferred this experience in developing associations, establishing grades and standards mechanisms, and building markets to other countries of E&E.

Disadvantages of this option vis-à-vis other alternatives are the likely higher cost, the higher management demands and remaining uncertainties over Georgia's ability to be competitive in world markets. The Mission may also see such an integrated approach to mitigating constraints as too broad or consuming of limited resources. However, the team believes that important synergies could be cultivated between a well-designed VAEG project and ongoing projects in the USAID and other donor portfolios. Moreover, a phased implementation approach would mitigate some of the possible risks inherent in the option.

V. Recommendation

A. Introduction

Based on the information collected, an assessment of the pros and cons of the alternatives and informed judgements on what can be achieved, the Assessment Team recommends the VAEG option.

Summarizing from the discussion above, such a programming alternative would entail targeted assistance to agricultural processors and other enterprises that carryout value-adding activities such as sorting, grading, packaging and marketing produce and assistance in establishing the institutional and support systems needed to make the processors/enterprises competitive. It would facilitate the development of upstream linkages between processors/value-adders and producers and downstream links between processors/value-adders and potential markets. Through this systems approach, primary constraints to agricultural sector development, namely insufficient demand (both export and domestic markets) for agricultural produce and lack of credit or working capital for producers would be addressed. While the primary focus would be on export market development, opportunities for increasing the share of Georgian products on their own domestic market would also be explored.

The goals of such a project would be twofold. First, to increase market demand in Georgia for agricultural produce by facilitating links between producers and processors/value-adders and by increasing marketing opportunities for agricultural products. Second, to increase incomes and the agriculture/agribusiness sector's contribution to broader economic growth by expanding the percent of agricultural products that enters the marketed, value-added agricultural sector. By focusing the assistance on value-adding enterprises and associations, a VAEG program actually expands the potential impact of programming assistance on small agricultural producers. With increased market opportunity, many of these small producers will be able to move past subsistence level production and may even grow in such a way that promotes further land market and agricultural sector development. Moreover, by increasing the quality and value of agricultural produce that is marketed, the VAEG has a greater impact on contribution to economic growth and rural incomes.

Success of a VAEG would be measured by increases in marketed, higher value production of targeted commodities/products and by the development of profitable and sustainable enterprises and business groupings such as farmer/processor associations. The focus of the assistance is not on the establishment of sustainable public or private institution to continue the assistance activities, but to provide a timely and necessary infusion of support to private sector business initiatives. However, sustainability does require systems to ensure quality, food safety, etc., and this may require the formation of new institutions or self-regulating organizations.

Below, the elements of a possible VAEG program are explored in greater detail. The discussion provides further context for such a program, suggests options for implementing VAEG-type programs at different funding levels and shows possible synergies with existing USAID and other donor programs.

B. VAEG Program Elements

Focus on Value-Added Enterprise Growth

The recommended VAEG option is an activity focused at value-adding levels of the agricultural system for selected commodities/products for which a specific market has been identified. The

approach builds on the already demonstrated supply response in Georgia whereby production follows demand. It is a demand-pull rather than a supply-push approach. In order to expand the marketing options available to producers, and thus increase demand for agricultural products, the assistance will focus on value-adding enterprises and associations. Enterprises and associations will be considered value-adding if they engage in processing, sorting, grading, packaging and/or other such activities or services that increase the price that consumers are willing to pay for particular products.

Export vs. Domestic Market Focus

The domestic market is small, both in terms of numbers of people, and in buying power. Therefore, the primary focus of the program should be on the development of enterprises that process or otherwise package and market agricultural commodities outside Georgia's borders. An important selection criterion for firms and/or products for assistance would be that effective marketing and not absolute demand volume is the constraint to effective and expanded operations. Though the primary focus of the assistance program would be the development of markets for export-oriented agricultural products, there are some commodities that may be promoted for their import substitution potential. These commodities include feed grains, oilseeds, high value fruits and vegetable, dairy and eggs.

Illustrative Activities

The components of a VAEG activity would have to be developed during actual project design. The number and breadth of activities included would vary depending on the funding level for the project. Adjustments could also be made to project activities depending on the status of USAID and other donor projects at the time of project design. Below, however, is a list of illustrative project activities.

- Develop producer associations and value-adding enterprise associations;
- Identify potential markets and niche commodities;
- Provide training and consultation on food quality and safety standards, including information on brand development and product design, equipment needs, production techniques/efficiency and packaging;
- Develop ability of Georgian enterprises to meet ISO 9000 and HACCP standards;
- Manage a loan fund that will facilitate enterprise development suggested in consultations, or facilitate producer/processor linkages;
- Develop credit and contractual mechanisms that facilitate credit/product/payment flows between producers and value-adding enterprises;
- Develop prototype for market information system that includes price information and situation outlooks. (It is advised that this component could be transferred to a restructured MOA.)

C. Market-Niche Focus

For reasons outlined earlier, priority VAEG attention should be on labor-intensive, high-value agriculture. Given the weak level of domestic demand, this implies a focus on fruits, vegetables, herbs, flowers, and other specialty niche crops, primarily for the export market. In addition, the selection of more extensive crops for attention may be appropriate in some regions where the conditions do not favor the high value crops, and where competitive prices for domestic goods can lead to adequate demand from import substitution.

Georgia produces a number of agricultural commodities/products that have been able to penetrate various international markets. These include wine, tea, hazelnuts, fruits and processed juices for markets in Western Europe, Eastern Europe and the CIS countries. As the trade data indicates, however, the volumes and values have generally been small. At the same time, the domestic market in terms of population and buying power is too small to absorb the quantities necessary to achieve scale-of-production economies and benefits. The issue is how best to direct limited resources to buttress and expand revival in the sector.

Locating markets will not be simple. There is no agricultural commodity that is not provided on the international market by some other supplier from some other country. Therefore, Georgian products will have to find their niche among other competitors. To find the niches means satisfying world quality and health standards and locating market windows not met by other suppliers of a particular commodity or product. In turn, meeting world standards requires understanding what buyers in a target market really want, growing the right varieties, packing them properly, and getting them to markets in a very timely and efficient manner.

Marketing is easier for storable commodities like hazelnuts, than for perishable products like flowers or strawberries. Converting perishables into more storable products also facilitates marketing. For example, apples, peaches, pears and other fruits can be processed into preserves and juices. Several Georgia processors have begun to target the large global market for apple juice concentrate. International beverage companies like Ocean Spray, Very Fine and Minute Maid, as wells as firms in Europe and Asia, are seeking new, reliable suppliers of various juice concentrates to meet growing demand. If the Georgian producer/processor can identify commodities for which both fresh and processed markets exist this will reduce their risk in the market place. A full exploration of all commodities/products in which Georgia is or might be competitive is beyond the scope of this paper. Such an examination of the possibilities would be designed into the first stage of a VAEG project in order to inform the selection of sub-sectors for priority assistance. That said, there are several commodities that are likely candidates. Information on these commodities and their potential for contributing to agricultural sector growth is explored briefly below.

- World tea production levels in 1998 were at 2,962,600 metric tons or nearly 296,000 metric ton more than in 1997, the highest world production in the last decade. In 1999 tea supply moved well ahead of demand for the first time since 1993 with the normally expected impact on prices. In early 2001, it appeared that the emphasis had shifted and demand rather than supply seems to be driving the market. However, there is no shortage of tea and the current situation could quickly change again. The leading export countries are Sri Lanka, Kenya, India, and China. Large importers are United Kingdom, United States, and Russia.

  In 1999, Georgia tea production was 60,000 metric tons, or about 2 percent of world production. The Georgian tea industry is also nearly 50 percent controlled by Martin Bauer giving the industry a mechanism for entry into the world market. Quality is adequate. However, Georgia is a relatively high-cost producer and low-priced imports reduce domestic demand. Given these realities, tea is not likely to be a high priority sector for USAID assistance.

- Hazelnut production in major producing countries in 1999/2000 was about 770,000 metric tons. Marginal production decreases in Turkey and Italy, the world's first and second largest producers respectively, did not offset significant production increases in Spain and the United States. Total hazelnut supplies increased 15 percent from the

1998/1999 season, mainly due to carryover stocks. These large carryover stocks have put downward pressure on prices. To remove some of the downward pressure the Turkish group FISKOBIRLIK is planning to crush for oil much of the stocks they hold, rather than sell them as kernels. Total exports in 1999/2000 were about 465,000 metric tons, due to expanded exports from all countries accept Italy. Turkey is by far the leading exporter with 400,000 metric tons, followed by Italy. Eighty percent of the Turkish exports go to the EU, the largest import group of countries. Efforts are underway to expand exports to Asia and FSU countries.

Hazelnuts can seemingly be grown competitively in Georgia and for Georgia in recent years, hazelnuts have become a very significant agricultural export - ranking first or second in value. According to official statistics, 1999 hazelnut production in Georgia was 17,000 metric tons, or about 2 percent of the production by major production countries. In CY 2000 Georgian hazelnut exports were reportedly valued to at $15.5 million (about 10,000 metric tons). Thus, while Georgia is not a large player in the industry, there may be niches in world markets either selling directly to selected small traders or via contract arrangements with large buyers. Also, being next door to the world's largest producer and exporter of hazelnuts (Turkey), Georgia should be able to build strong business relationships in this sector.

Because of their storable nature and Georgia's apparent competitive advantage in production, hazelnuts appear to be a good product for Georgia at this time and one that should be considered for support from USAID programs in the agricultural/ agribusiness sector.

- Worldwide table grape production in 1998 was dominated by Turkey's 3.7 million metric tons, followed by Italy, with 1.55 million metric tons. Other major Northern Hemisphere producers are the US (750,000 metric tons), Spain, (350,000 metric tons), Greece, (304,000 metric tons), Japan, (246,700 metric tons), Mexico, (117,000 metric tons), and France, (107,000 metric tons). Significant Southern Hemisphere producers are Chile (850,000 metric tons), Republic of South Africa (165,000 metric tons) and Argentina (110,000 metric tons). Table grape exports from key Northern Hemisphere countries in 1998 were 1.15 million metric tons, 3 percent above 1997 shipments. Exports from Southern Hemisphere countries were just over 600,000 metric tons in 1998, and the leading export country was Chile with 80 percent of the total. The leading importing country is the US followed by countries of the EU - France, Germany, and the United Kingdom.

  Only small quantities of table grapes are produced in Georgia, almost all for domestic consumption. On a larger international scale, table grapes would be a new product area where Georgia may be able participate, particularly if Thompson Seedless, Flames, and other leading seedless varieties can be grafted to existing Georgian rootstock. Georgia will not likely become a major player in the table grape sub-sector, but the country does have good potential for producing the crop. With markets to the north (Russia, Ukraine, other former FSU countries), west (Western and Central Europe), and east (China), Georgia should be able to sell much of whatever quantities can be produced. This is particularly true if Georgia’s window of opportunity comes when other suppliers are absent. Georgia has established a good reputation for its fruit crops and should be able to build on this reputation.

This is a crop that likely should be considered for support under a USAID program in the agricultural/agribusiness sector.

- In March 2000 projections indicated that worldwide wine production was likely to outstrip demand during the next five years, forcing down prices and increasing competition for the various world producers. The market for ordinary table wines is loosing ground to higher quality wines, and the production of everyday wines is large. Market growth in red wines also tends to be stronger than growth in white wines.

  Wine production in 1999 in the leading Northern Hemisphere producer countries of France, Italy, Spain, Portugal and the United States was 170 million hectoliters. France maintained its position as the world's largest wine producer with 62 million hectoliters followed by Italy with 57 million hectoliters, Spain with 33 million hectoliters and Portugal with 5 million hectoliters. The United States produced 21 million hectoliters. Exports from these countries were about 50 million hectoliters. Southern Hemisphere wine production in the leading producer countries of Argentina, Australia, Chile, and South Africa was 37 million hectoliters in 1999. Exports from these countries were 7.4 million hectoliters.

  Georgia's current wine production is less than 500,000 hectoliters, with exports of less than 50 percent of that level. The largest markets remain in the countries of the former FSU although small quantities are reaching Western European and even the U.S. market.

  A CERMA review of the Georgian wine industry indicated it was unlikely that Georgia can develop a competitive advantage over established exporting countries for the production and processing of international grape varieties (Chardonnay, Cabernet, Sauvignon, Pinot Noir, and the like).[16] Georgia may be able to develop a more unique competitive advantage from wines made to "international standards" from typical Georgian or Caucasian varieties, such as saperavi.

  The Assessment Team agrees with the CERMA analysis, a national vine rehabilitation strategy should be oriented toward production of high-quality/high-value grapes that are in demand. Careful market analysis needs to be undertaken as part of any wine production strategy.

  Note: Wine may be a sensitive area for USAID to promote as legislative restrictions may apply, but it is a potentially profitable value-added crop.

As illustrated above, for a few high-value commodities that Georgia produces, there may be windows of opportunity for value-added products. More work to identify specific markets and to implement production and packing/processing of the high value niche commodities that will grow well in Georgia is needed. This work should be designed into the initial stage of any VAEG project.

D. Implementation Funding Options

Recognizing that USAID/Tbilisi may face funding constraints, the following funding alternatives are briefly discussed.

16. CERMA, "Guidance for a Medium-tern Outlook Plan to Guide Georgian Viticulture and Wine Sector Modernization; August 17, 2000.

1. $3.0 Million/Year for Three Years

This is the recommended funding option. The proposed level of funding would allow a range of value-adding activities aimed at boosting exports or domestic consumption of several competitive commodities/products. It also covers a period of time sufficiently long to allow multi-tiered activities to be developed and implemented that can demonstrate measurable results.

In input terms, a minimum of three person years (long term) of expatriate advisors per year with expertise in market development, value-added processing and credit/finance is recommended. These advisors would work out of offices in Tbilisi and two regions staffed with appropriate local staff. A modest amount of capital for a loan fund specifically targeting value added activities should be provided. Supplementing these resources would be a short-term technical assistance and training element to leverage and support lending to value-adding organizations by the financial component of this project and other financing organizations such as AgroBusiness Bank and/or ACDI/VOCA. Such a component would also provide short-term technical experts who would address problems that may constrain the production, processing and marketing of targeted commodities/products.

Because markets are dynamic and constantly changing, it is suggested that a final decision on commodities/products and markets to be targeted should be a first priority of the project implementation team. However, it is also suggested that fruits/vegetables, hazelnuts, wine and other specialty crops are the most likely export candidates with oilseeds and livestock feed crops the most probable domestic market commodities. While USAID should have a preference for working with associations to maximize the spread of benefits and efficiency in providing assistance, firm-level assistance in promising commodity/product areas should also be acceptable.

Within three months of arrival of the technical assistance team, the first targeted market/ competitive opportunities should be identified. The selection should be closely linked with work underway through GEPA, the USAID GEMA Project, ACDI/VOCA and local financing institutions. It must also take into account the capabilities of local value-adding groups to meet those markets. The selection may be based on new market research or the confirmation of existing market research conducted by an individual company or association or another donor-assisted organization such as GEPA.

Once a market for a cost competitive product is identified, a comprehensive approach to meeting the needs of that market and Georgian value-adding organizations should be developed. Within six months a second targeted market/competitive opportunity should be launched with a target of adding two more target launchings in the second year of the project.

2. $2.0 Million/Year for Three Years

Under this intermediate option, a modest but effective program could be undertaken. Decisions would need to be taken at the design stage on whether financing or technical assistance should be emphasized. The Assessment Team would recommend that roughly two-thirds of the funding be set aside to provide technical assistance, market investigation and training services. The remaining one-third would be used for lending to organizations providing value-added services. In this option, three person years of short and long-term advisory assistance is envisioned along with a greater emphasis on marketing studies.

In conclusion, the exact detail of the project content would be spelled out during final design of the project. It is important that the final design be oriented toward a proper balance between the long and short term expatriate assistance and the effective financial and business support of the target client value-adding organizations.

3. $1.0 Million/Year for Three Years

While this minimal level funding alternative would not allow a comprehensive or integrated program of support to value-adding organizations, it could be used as a bridge or pilot program. The focus would be on market identification and financing. Only limited results for 2-3 commodities should be expected.

Under this option, no more than one-person year of expatriate assistance would be provided annually with roughly fifty percent of the funding directed toward the provision of loan financing for value-adding enterprises or organizations that have identified export or domestic markets. One possible mechanism would be to simply establish a new credit line in the ACDI/VOCA program exclusively for value-added processing/marketing activities. In parallel with the credit, a small technical assistance and training fund would be implemented. It would perhaps be most efficient to target the activity in one or two regions.

E. Illustrative Outputs

A well designed activity at the full, recommended funding level ($3 million per year for three years) could be expected to result in the following:

- The identification of at least 10 target commodity/product markets offering cost competitiveness for agricultural/agribusiness value-adding investors in Georgia;
- Establishment of at least 15 producer associations that add-value through sorting, grading, packaging and marketing members' produce;
- Consultation or other assistance to at least 15 processors or other value-adding enterprises;
- Establishment of up to 3 associations of value-adding enterprises;
- Regular market information reports;
- Additional sales of targeted commodities/products in quantity and value terms;
- Approximately 300 members of producer associations, value-adding firms and organizations, and value-adding associations will receive technical, and market/marketing training;
- Training and/or consultation for leaders of established producer associations, value-adding enterprises and associations on such things as brand recognition, grading, food safety standards and techniques;
- ISO 9000 registration procedures completed by a minimum of five enterprises;
- The introduction of HACCP principles in the Georgian food industry;
- Facilitation of loans or lending to a minimum of 50 value-adding enterprises or associations for their activities;
- 150 members of producer associations, value-adding firms and organizations, and value-adding associations will have attended business/management training offered by others;
- Facilitation of at least 8 relationships between value-adding firms or organizations and producer associations;
- Organized credit mechanisms that work through value-adding firms and organizations to reach down to approximately 100 small farm producers per firm and organization;

- Improve export promotion and domestic marketing techniques used by value-adding firms and organizations;
- Increased income for employees and members of the value-adding firms and organizations and farmers.

These outputs are indicative. More detailed project outputs, benchmarks and indicators would be fleshed out in detail during project design.

B. Linkages

1. S.O. 1.3

The recommended activity directly and clearly supports the Mission Assistance Strategy. Under Strategic Objective 1.3, Accelerated Development and Growth of Private Enterprises, USAID/Georgia has been pursuing two fundamental avenues in encouraging the transition from a centrally planned economy to broad-based economic growth in a relatively free-market economy. The first is to reform the enabling environment to create the conditions under which private enterprise can grow and flourish. Support for the MOA restructuring is directly targeted to this objective.

The second avenue of Mission assistance is to work directly with firms, producer groups and individual entrepreneurs to stimulate production, marketing, processing and service provision that provide employment and income opportunities for Georgians. It is this second thrust that is the focus of the recommended agribusiness assistance program. In particular the proposed assistance is directed at Intermediate Result 1.3.4, Selected Agribusiness Opportunities Identified and Facilitated. The emphasis on locating markets, assistance in meeting market demands and helping solve financial constraints for value-adding firms and organizations necessarily means "identifying" agricultural/agribusiness opportunities that will be "facilitated" in growth and development terms. In addition, USAID/Tbilisi has overall objectives of directly impacting people with assistance programs and undertaking enterprise-level interventions in selected geographic regions outside Tbilisi. The proposed agricultural/agribusiness assistance initiative provides an effective means of supporting the achievement of both of these objectives.

The Team also notes the obvious synergy between S.O. 1.3 market reform activities and those at the firm level. Success at the firm level is heavily dependent on progress on achieving an enabling environment with experience from firm level assistance feeding back to provide direction for additional modifications in the enabling environment that may be needed. Consequently, as noted earlier, additional and continued assistance in reforming the enabling environment is also important and it will be likewise important that information exchange and coordination among the various implementers in the S.O. 1.3 area takes place easily and often.

Specific Linkages to GESP

Of all S.O. 3.1 current projects, the linkages to GESP have the most potential. VAEG will need to collaborate closely with GESP and should compliment GESP activities. A VAEG project could identify policy reform and business climate issues needing resolution, and feed this information to the policy arm of GESP. Potentially competitive value-adding firms that become targets of assistance under VAEG should be candidates to take advantage of GESP strengthened business support programs and the services they will be able to provide. In turn, these enterprises and associations are more likely to become paying customers for these services, thus supporting fulfillment of GESP objectives.

While these GESP and VAEG linkages should be strong, they also serve to highlight some of the differences and possible overlap between the two projects. VAEG is very much an enterprise and sector focused project within the agriculture/agribusiness sector while GESP remains concentrated at a higher policy and more general business level. VAEG will seek to take advantage of general business services that GESP develops, but will focus at the enterprise level. In the course of working with enterprises and producers, VAEG will gather important firm-level information that will inform the policy-making process, in which GESP remains engaged. Both projects will include an emphasis on associations with VAEG also including farmer or producer associations along with industry associations. VAEG is very explicitly an integrated approach that will include attention to raw material production, value-adding activities and market identification/development for selected commodities/products. Finally, VAEG is sector specific while GESP has a broader "business" perspective.

Although the overlap is limited, it may be tempting to believe that GESP could be directed to focus on the agricultural sector, or that the GESP contract could be amended to include additional, agricultural sector specific development work. The Assessment Team does not recommend either of these options for two reasons. First, as apparent from the project description of GESP in Section C.2., GESP is already an expansive and rather complex program. Amending or redirecting GESP risks diluting that project's effectiveness, while minimizing the impact of the new activity. Second, by subsuming agricultural sector development support under GESP, the Mission may sacrifice some control over the substance of assistance being provided and signal less interest in and commitment to agricultural sector development than it intends. The principal benefit of amending GESP to include a focus on agricultural development would be to avoid the need for establishing an additional management unit. However, to adequately manage the activity, an additional management unit with experience in agribusiness development and agricultural marketing would have to be added in any case, since GESP does not currently have the necessary expertise.

2. Other Mission Programs

Other USAID programs such as those under S.O. 2.3, More Efficient and Responsive Local Governance, and S.O. 3.1, Reducing Human Suffering in Targeted Communities, will continue to provide assistance to some of the same geographic areas and communities where the recommended agribusiness activity will operate. This does not imply that there will be duplication of efforts or activities. Rather, it is possible to envision areas of collaboration and mutual benefit between programs. For example, S.O. 3.1 programs that provide assistance to IDPs settled in rural areas could benefit from the type of assistance a VAEG program would provide. Currently, there are limited activities to support entrepreneurs from these communities with improved access to credit, producer association development or market access. Several NGOs receiving USAID support outside of the S.O. 1.3 portfolio are engaged in agricultural development activities in specific geographic regions. The credit, extension information, input supply and association development assistance they provide could bolster and be bolstered by value-added processing organizations. S.O.2.3 anti-corruption programs will strengthen the effectiveness of any program designed to support enterprise development and enhance the business climate. At the same time, enterprise development programming can inform anti-corruption programs as to the impact of activities and areas for further attention.

It is both essential and efficient that linkages be established and fostered among these various activities. This will require a strong USAID commitment at all levels to make this happen and active USAID support for such collaboration beyond simple meetings and exhortations to

implementers. The Team suggests that such collaboration be made a specific requirement in Annual Work Plans that must be reported on at regular intervals.

3. Other Donor Programs

Numerous, on-going activities being implemented by other donors means the recommended project will not need to devote significant resources to all of the identified elements. For example, the TACIS-supported Georgian Export Promotion Agency is already doing some work in identifying and profiling export markets, arranging trade shows for Georgian producers in target markets, and engaging in other export promotion activities. The Georgian Investment Center is engaged in investment promotion. However, neither of these projects works with enterprises or associations in such a way as to prepare them for this stage of development. A VAEG program could prepare enterprises and feed them into export and investment promotion activities conducted by these projects. Being able to leverage export and investment support for its client enterprises similarly increases the impact of the VAEG program. Similar collaboration may be possible with regard to loan financing. AgroBusiness is expanding their outreach to the regions and will continue their focus on making loans to mostly small and medium size agribusiness enterprises. AgroBusiness Bank leadership has expressed an interest in coordinating with a USAID program that would provide technical assistance to improve the quantity and quality of enterprises in their application pool. The Assessment Team recommends that a VAEG project be designed to take advantage of these possible synergies and project implementers should be encouraged, if not required to do active outreach to other donor projects to ensure coordination.

Annex I

Agriculture/Agribusiness Sector Background Information

1. Introduction

Agriculture plays an important role in the Georgian economy. In 1999, the sector contributed over 33 percent of gross domestic product (GDP) with the sector's contribution in 2000 expected to decrease slightly to 25 percent of GDP as a result of the drought and relatively positive growth in industry and construction. Employment in the sector accounts for just over 50 percent of total employment in Georgia with agricultural exports ranking second only to metals in 1999 providing over 17 percent of total exports (1).

The importance of the sector to the Georgian economy, nevertheless, belies a serious crisis of decline and stagnancy. Agricultural/agribusiness output is down 30 to 40 percent from the levels of the late 1980's. Many crops such as fruits, vegetables, sugar beets, grapes and tea have experienced substantial production declines (60-90 percent), due in large part to a loss of Former Soviet Union (FSU) markets and a breakdown of the processing industry. Production levels for many grains have remained near 1980's levels, but only because increases in area cultivated have made up for decreases in yields of 30-40 percent.

In value terms, food, drink and tobacco imports exceeded agricultural sector exports in 1999 by a ratio of 3:1(2). This is in sharp contrast to the 1980's when the value of Georgian food exports to the rest of the FSU exceeded by a factor of 1.7 the value of food imports from other Soviet republics (3). Over 50 percent of the grain and dairy products consumed are now imported.

Recent years have seen a number of positive changes in the enabling environment for agriculture/agribusiness. The almost complete withdrawal of subsidies, a relatively liberal trade regime, and the freeing of domestic prices for agricultural products are good examples. The interest and commitment of the Minister of Agriculture to restructuring and downsizing of the Ministry of Agriculture (MOA) to meet the needs of a market-driven agricultural sector is another positive step forward.

Despite these gains, many opportunities remain to improve further the policy environment for the sector. General areas needing continued work include the enforcement of customs procedures to avoid export and import delays and tax policies (simplification and administration and VAT as relates to agriculture) that discourage local production and processing. Other agricultural sector specific problems include government rules and regulations that impose lengthy registration requirements on the import and use of new products (such as new seed varieties) and technology. Similarly, the lack of a good seed law inhibits investment in the seed industry. Finally, the lack of a good market information system, particularly with respect to domestic and export market opportunities and prices, hinders development.

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1 The source of these numbers is the IMF Report of April 7, 2000.
2 Latest year for which data is available.
3 From "Georgia Reform in Food and Agriculture Sector: A World Bank Country Study." 6/1/96

2. Agro-Production Levels and Trends

The country of Georgia has favorable conditions for the production of a wide variety of annual and perennial crops - grain crops such as wheat, corn and sunflower, high value crops such as grapes, fruits, tea, citrus, vegetables and tobacco, and specialty crops such as essential oils, organic herbs and spices. With the exception of the coastal plain, most of Georgia has soils that are moderately fertile and easily tilled. The climate is milder than in many parts of the FSU, with adequate heat units, day length and growing days to enable production of a wide variety of crops. Marginal rainfall makes supplementation by irrigation water necessary in many regions. But overall the country has many characteristics similar to California in the USA.

With variations due to weather, annual grain production of around 700,000 metric tons hovers around 1990 levels with increases in areas planted in grain crops offsetting lower yields, Annex II, Table 1. Since the early 1990's, areas under maize, wheat and sunflower have all increased with year-to-year variations indicating price responsiveness by producers. Domestic grain production, however, generally meets less than 50 percent of estimated requirements (the largest deficit is in wheat). Average yields of all grain crops are low to very low by Western standards with increases of 200-300 percent possible.

Areas under potatoes after slumping initially are now at 1990 or higher levels, Annex II, Table 4. Production of potatoes may actually be reaching new highs, particularly if home garden production is included. Vegetable production continues well below 1990 levels, largely due to the decline in processing demand

The area planted to seed (apples, pears) and stone (plum, cheery, peach, apricot) fruits has declined by 65 percent since 1990, Annex II, Table 5. While the production of seed fruit has continued to decline, the production of stone fruit has stabilized since 1996. In fact, official statistics indicate that production of stone fruit actually rose 30 percent in 1999 over 1998. A major reason for the decline of these fruits is that immediately after the break-up of the FSU, the ownership of the orchards was unclear, and some were neglected to a point where they could not be reclaimed without great expense. Also, as in the case of vegetables, the decline in processing demand resulted in less fruit harvested. Once the new farmers knew they owned the trees, improved care began and production of stone fruits rose.

With respect to citrus the decline has been even more dramatic, going down by 86 percent between 1990 and 1999. The production of nuts (walnuts, and hazelnuts) has been a bright spot for the sector as production rose from 9,000 tons in 1990 to 35,000 tons in 1999.

The livestock sector, like the crop sector, has experienced substantial declines - Annex II, Table 6. Production of meat and meat products is 40-45 percent below levels of the mid-80's reflecting a substantial drop in animal numbers. The largest declines have been in swine and sheep although swine numbers have stabilized at about the level of 1994, and sheep numbers at the levels of 1996. Poultry numbers fell through 2000 to 1/3 of what they were in 1990, but egg production has recently shown an upward trend. Broiler production remains limited, mainly due to a lack of good feed sources, and the importation of low cost chicken parts from international sources. Total milk production is almost back to levels achieved in the late 1980's, as is production per animal of 900-1000 liters per lactation or about 12-15 percent of average Western levels. Wool production has dropped more than 70 percent since the 1980s. Government veterinary services are hampered by a lack of budget. Other constraints to increased livestock production levels include a lack of feed (forages and feed concentrates), the collapse of the

artificial breeding system, lack of accessible markets (particularly for milk), and low levels of knowledge by small-holders regarding management of cattle and handling of milk.

The household sector (small farmers) in recent years has gained in importance as the primary agricultural production sector in Georgia. In 1988 the household sector produced 25 percent of all grain compared to 95 percent by 1999. In the case of potatoes, vegetables, and grapes, household producers accounted for 45-50 percent of production in 1988 and 98 percent in 1999. For fruits and citrus household producers have been the dominant sector for many years, as in 1988 they accounted for 77-78 percent of production and in 1999 for nearly 99 percent. Nearly all livestock products come from the household sector. In short, with the exception of tea, where commercial enterprises produce about 55 percent of the crop, household producers are the most important sector.

In the past, Georgian agriculture exports contributed positively to the trade balance. During the Soviet period Georgia was one of the major suppliers for fruit and vegetable products to the republics of the FSU, exporting fruit of various kinds, tea, essential oils, citrus, wine, alcoholic drinks, mineral waters, canned fruit and vegetable products. These agricultural exports were 1.7 times more than the imports of agricultural products from other republics within the FSU-grain, meat products, dairy products and fodder. More recently, official data indicate that Georgia has moved from being a net exporting country to a net importing country with respect to agricultural products. In fact, since 1996 the imbalance in agricultural trade has become very substantial with 1999 agricultural imports (including tobacco) appearing to have exceeded exports by a ratio of 3 to l.

Georgia's competitive advantage in the agricultural production sector likely lies in high value fruits and vegetables for the early spring and late fall markets of Northern hemisphere countries, particularly Russia, Ukraine, Poland, Belarus, and the Baltic's. Some products could even move into Western Europe and the Middle East and perhaps China. Certainly Georgia can produce wheat, corn, and other extensive crops, but when producers are small and irrigation water can be made available, it is more economically efficient to focus on higher value, labor intensive crops. In non-irrigated areas of Eastern Georgia, where land is extensive and rainfall limited, dryland technology similar to that used in Montana, and North and South Dakota to produce wheat and other crops for which there is domestic demand is probably is probably the best strategy. The same may be true for parts of Western Georgia where animal feed crops can be grown without irrigation.

In conclusion, the answer to the question "where is Georgia's competitive advantage in agriculture?" really depends on the region in Georgia and where the markets are. It should also be expected that over time Georgia's competitive advantage crops will change as abilities improve to meet grades and standards, health, safety, quality, packaging and other elements of market demand. Georgia can seemingly be competitive in a variety of products if systems that enable Georgian products to enter export markets can be put into place.

3. Agro-Processing Levels and Trends

Most small and medium sized enterprises in Georgia (including agribusiness firms) have been privatized, but a substantial number of the enterprises controlled by the MOA (reportedly over 130) remain in government hands. Many of these soviet-era agricultural facilities are old, of a scale that makes them inefficient and non-competitive, in a poor state of repair and simply not operating.

Visits by a USAID team in July/August of 2000 to flour mills, sugar plants, wineries and dairy processing facilities in several regions found most idle or operating at no more than 10 percent of original capacity. A study of Khakheti region in August 2000 found that only 10 of 43 agricultural enterprises were operating at or near full capacity, with 14 not operating at all, Annex I, Table 9. The others operated partially, but none at over 50 percent of capacity. Because some non-operating firms were very large in comparison to others that were operating, average capacity utilization is difficult to determine. Nevertheless, it is doubtful that more than 20 to 25 percent of the processing capacity in the region was being utilized.

Recent Assessment Team visits (March, 2001) to selected regions confirmed that many processing plants are not operating, or, if operating, using only a small portion of original installed capacity. For example, the GORKONI fruit cannery in Gore presently turns out 20 different products, compared to 270 products in the early 1990's with a current capacity utilization rate of 10 percent of installed capacity. Similarly, a CERMA baseline study of the viticulture and wine sector in Georgia found that in 1999 only 9.3 percent of the grapes produced were industrially processed. This was down from 60 percent in 1990 with the 1990 figure was based on 700,000 metric tons of grapes produced, whereas, the 1999 figure was based on 200,000 metric tons of production. These numbers are very consistent with a World Bank study that concluded production levels in the agro-processing sector were at about 10 percent of 1980 levels (4).

Only small quantities of new plant and equipment are being imported. While the limited availability of capital reportedly constrains the establishment of new small and medium-size agricultural processing enterprises, some local entrepreneurs are, nevertheless, establishing new enterprises. Such enterprises, however, are often poorly integrated into the local production and packaging networks. They import raw materials to process, as well as the jars, bottles and labels for finished export product.

Amid this depressed picture some good, though limited, examples exist of local and foreign companies operating effectively in a range of areas including fruit processing, bakery/macaroni processing, meat processing, potato packing, and egg production and packing. In Gore, the fruit processor GORKONI has established a joint relationship with the American group GIG (21 percent of the shares) and a Swiss Company (also 21 percent of the shares) to process several fruits into fruit based products and juices. They also export bulk apple juice concentrate. In July/August, 2000 a local investor in Kutaisi put a flourmill back in operation, established a bakery, and was readying a facility to initiate a new macaroni line. However, during a February 12, 2001 visit to the same facility it was learned that due to the poor wheat crop in 2000 and the smuggling of flour, the mill has not been able to produce flour at a profit, and is now idle. The bakery is still operating, and the macaroni plant will come on stream soon. Near Tbilisi, a Georgian businessman privatized a large previously state-owned egg production facility, renovated part of the facility and produces and packs eggs for the Tbilisi market. He is looking for local sources of feed grains, but expects to have to import feed from Russia for some time. Milk and ice cream producers have imported modern equipment and use imported powdered milk because local supplies of milk are inadequate in terms of quantity and quality. While these enterprises demonstrate the potential of agro-processing in Georgia, it is also significant that some of these enterprises frequently import raw materials and packaging.

4. See "Georgia: An Update of Agricultural Developments" by Ian Shuker of the World Bank, July 24, 2000.

Packers of selected fruits indicated to the Assessment Team that they have markets in former FSU countries, but these markets are not the most attractive because they do not get paid for quality. Thus, packers are looking for new market opportunities in western countries and, with proper assistance in grading packing and handling local producer/packers, believe they will find good market outlets for fresh packed fruit products. Processors of juice, jams/jellies and wines have identified some market outlets for their products in FSU countries as well as western and Middle East markets.

To expand the markets for value-added fresh and processed products will require developing a market support package, i.e., detailed market profiles for targeted products including presentation, sanitary, labeling and quality standards required, marketing strategies and pricing information. This will need to be matched with information on buyers and traders, and trade missions to establish relationships with leading buyers. The Georgian Export Promotion Agency (GEPA) supported by TACIS is working to develop export initiatives from Georgia and may be able to help with some aspects of market support. Another opportunity would arise if current efforts being implemented through Elkana (the Biological Farming Association) are successful. Under this initiative a Georgian organization would be authorized to issue certifications that Georgian products meet international requirements and can be labeled as organically grown. Other export initiatives underway include for specialty packed fruit products to Israel, and for apple juice concentrate to European markets.

The Assessment Team believes that the agro-processing sector (packing and processing) is an area where USAID can make a difference. Many of the newly privatized processors are beginning to revive operations. As they do, assistance will be needed in market identification, organizing to meet market demand and satisfy market requirements and locating financing for equipment, maintenance and working capital to purchase raw materials from farmers. The introduction of ISO 9000 to meet international standards for quality assurance and HACCP (5) will also be required. It should be emphasized that putting together this package is a complex undertaking involving not only changes in production and processing technology but changes in approaches and thinking. The development of new organizations and systems to ensure market standards can be met on a consistent and sustained basis is part of this effort..

4. Land Ownership

According to 1999 data from the National Department of Statistics, there are close to 2.6 million hectares of agricultural land in Georgia (6). Of these, roughly one-third were privatized and distributed to rural families according to the so-called “land privatization decree” (Government Resolution 48, January 1992) and the subsequent Law on Agricultural Land (March 1996). Of this land, nearly 70 percent was arable or planted to perennials. Land associated with residential plots was included in a total of up to 1.25 hectares distributed to each family.

As of October 31, 2000, USAID, under its two land market projects (OMNI II and SEGIR IV GBTI task orders) completed the surveying, titling and registration of almost 1.2 million agricultural land parcels. This work was carried out in 39 of the 67 raions of Georgia. According to the land market project implementation team, there are approximately one million agricultural land parcels remaining to be surveyed titled and registered. The World Bank has been engaged in surveying, titling and registering in two additional raions, while the Germans (KfW) signed a $30

5. HACCP is Hazard Analysis and Critical Control Point.
6. Not including approximately 72.0 thousand ha. of agricultural land in Abkhazia and Samachablo.

million agreement with the GOG this year to begin surveying and registering agricultural land. To date the Germans have agreed to focus on rural residential/household plot land, though this may negate the USAID efforts due to an incompatibility in the techniques used.

Ownership of the remaining two-thirds agricultural land in Georgia is held by the state. The Law on Leasing (1996) allowed for the leasing of any of the agricultural land remaining under state control. However, only little over one half of this state-held land is leased (meaning that a little over one third of all agricultural land is leased). The leased land is a mixture of arable, perennials, pasture and hay land. The remaining unleased, unallocated land held by the state is primarily pasture land, much of this in the alpine zone. Only 6-7 percent of this land is categorized as arable or planted in perennials. According to the OSC survey conducted in July 2000, however, none of this land is currently irrigated. According to the survey, 80 percent of the unallocated land has no irrigation at all and 20 percent has irrigation systems that are broken beyond functional use.

There are over one million farms that cultivate only their own privately held land. The size of these holdings varies according to region, but averages between .75 and .9 ha. According to the OSC survey, 84 percent of the rural population is dependent on these subsistence farms, where 73 percent of the produce is consumed by the farm families themselves. The remaining 15 percent of the rural population have enlarged its land holdings by leasing additional agricultural land from the state. The OSC survey indicates that the average size of land holding for farms that have leased additional land is over 4 hectares. Statistics from the State Department of Land Management (SDLM) in 1997 show average size for farms that lease and own land to be 6 hectares, while the World Bank survey, conducted in four regions in 1996, showed the average size of farms with additional leased land to be 8 hectares. While these farms are significantly larger than the average farm that only cultivates its own land, they are still quite small.

The primary source of land for leasing is the state. Each local SDLM office is responsible for concluding leasing agreements with interested parties for the land within their jurisdiction. Lease agreements can be arranged for up to 50 years, however over 40 percent of respondents in the OSC survey hold leases of 1-3 years and another 32 percent have leases for 4-6 years. Lease payments were originally intended to cover both the land tax and an additional premium that would vary according to the region and quality of the land leased. However, the typical arrangement requires only the annual payment of land tax. This amounts to 57 Lari per hectare per year for arable land of good quality, including irrigated land.

Legislation to privatize the remaining state-held land is currently being developed in the Parliament. The goal of this privatization is to move arable land out of the public sector. While the first round of privatization (1992) was intended to ensure each rural household received a parcel of land, most agree that this round is intended to create viable, commercial-scaled farms. The simplest way to do this is to give priority purchase rights to the current leaseholders. However, this strategy will effectively exclude 85 percent of all rural residents from access to the land to be privatized in this second round. Many Parliamentarians support a strategy that gives priority to leaseholders. Many Parliamentarians are also themselves leaseholders. Since leaseholders are often perceived as those who used connections or political clout to gain control of the best state-held land, a strategy that gives leaseholders priority access to the majority of land in this phase of privatization may be unpopular with a large percent of rural residents. However, many leaseholders have also made investments in their leased land and are likely to be quite vocal in their opposition to any strategy that would deprive them of what they perceive as their land.

Use of the land tax as a determinant of the base purchase price may also raise objections. Some claim that land tax does not accurately reflect the variability of land quality (i.e. irrigated land vs. land with non-functioning or no irrigation). The Germans and many in the SDLM take this even further and want to conduct a soil survey to determine the quality of the land. If the distribution were dependent on this soil survey, it would slow the process and raise the cost significantly.

The OCS survey shows 47 percent of the rural population disagree with the government's current direction on agricultural reform. Although it is likely that this dissatisfaction is based on erroneous assumptions or lack of information, it should not be dismissed. Whatever distribution strategy is adopted for privatization of this land, efforts should be made to expand public understanding and build public support for this program. USAID should use the Association of Land-owners' Rights (APLR) to promote a transparent privatization of this land that promotes commercially viable farms while acknowledging social equity considerations. Specific recommendations for a USAID position on the legislation were provided in the Market Reform Assessment Report of September 2000.

The current pattern of private land holdings is highly fragmented. Rural residents typically own a small household plot surrounding their residence and one or more plots of land that include some arable, vineyard and pasture totaling up to 1.25 ha. These are rarely contiguous plots and are often located both far from each other and from the land-owner's residence. While it is hoped that the privatization of state-held leased land will promote the development of more commercially viable farms, the development of a land market is necessary to promote the consolidation and rationalization of land holdings among rural residents interested in and capable of engaging in commercial agricultural activities.

According to the OSC survey, almost 55 percent of respondents expressed a wish to acquire more farmland, especially that with improvements such as irrigation or plantings of perennials, yet the land market has been slow to develop. APLR data on subsequent land transactions as of January 22, 2001 show that approximately 2,600 land sales have been recorded through out Georgia. Anecdotal evidence suggests that more transactions are occurring, but are not being recorded. Recent policy changes have reduced registration fees from 26 Lari to 7 Lari. It is anticipated that this reduction in transaction fees will increase the incidence of transaction registration. Still, the number of transactions, registered or not, is limited in part due to the weak demand for agricultural produce. Both the OCS survey and interviews conducted during the Agricultural Assessment indicate that residents associate a higher value to land that is of better quality, has higher yields, has improvements such as irrigation or plantings of perennials, and is located in close proximity to transportation lines and markets.

Agricultural development in Georgia is dependent on a consolidation and rationalization of land holdings. Privatization of the state-held leased land should facilitate this process. The development of a land market will further improve land utilization. USAID is supporting the privatization process and development of land markets through its follow on to the Land Market Project. This support includes legal consultation to parliamentary members on drafting the legislation, as well as support and tracking of secondary real estate transactions in regions throughout Georgia. These activities are necessary, but not sufficient, however. While agricultural sector development in Georgia will benefit from land market development, development of a land market in Georgia is tied to an increased demand for agricultural produce.

5. Finance

Numerous credit programs, with funding from various sources, are active in Georgia. Commercial banks, credit unions and donor organizations are making loans to a variety of borrowers. However, limited funds characterize these credit suppliers. The 200+ credit unions are small with few having more than $50,000 in capitalization. The commercial banking system is going through a period of consolidation and stabilization and has a paid-in capitalization of less than $90 million as of August 2000. Donor supported projects operate with about $10 to $15 million in loan funds. Many of the donor assisted programs have only been operating only three to four years, and very few, perhaps only the Microfinance Bank and FINCA, have yet reached the stage of being self-financing or sustainable in the long term.

Among lenders the credit terms vary substantially, tending to reflect market rates and averaging around 30 percent per annum. The best rates for agricultural/agribusiness projects are 18 percent per annum, generally with a collateral requirement of 150 to 200 percent of the loan value. Institutions interviewed indicated that collection rates are good to date, although many loans are relatively new and repayment is pending.

The financial institutions mainly provide short-term (one year or less) medium and small size loans to mostly urban Georgian businesses. Very little of the limited credit supply is directed to agriculture, which is understandable when the risk of making a short term loan to an urban business is compared with the risk of lending to an agricultural enterprise. Loan for three months to urban businesses at 30 percent interest or higher are much preferred to agricultural/agribusiness loans at 18 percent for at least a six to eight month growing season.

For medium or long-term agricultural/agribusiness sector capital, the banking system with its limited capitalization is not currently, and will also not be in the short-term, a significant source. For the banks the alternatives to agricultural lending are more attractive and the legal/judicial system does not support the quick transfer of assets upon default of borrowers. The resale value of fixed assets is also low in the current economic climate and banks prefer liquid assets such as precious metals, and easily transacted goods. Together these factors make banks reluctant to lend for longer-term capital improvements.

Two sources of financing for many businesses are suppliers (supplier credits) and buyers (trade credits). Such credit providers do supply some credit to the agricultural sector for production inputs, but the amount is small and will remain so until good repayment track records are established. Trade financing and funds transfers by buyers of agricultural products are also limited. Very few buyers are willing to advance funds for purchases because there is still substantial uncertainty as to whether the producer will actually deliver.

Also, with letters of credit only beginning to emerge as a method for ensuring payment on delivery in the Russian market (the major market for Georgian agricultural commodities and food products), the practice of payment against an issued letter of credit is only now beginning. In most cases, sales to the Russian market rely on payment one or two months after delivery, after the purchaser has managed to sell the product. This practice led to major problems for producers during the late 90's financial collapse of Russian markets, because of nonpayment for product shipped. Now many suppliers are beginning to adopt the practice of requesting advance payments (at least some portion) prior to delivery.

6. Investment

As is evident from the discussion above, the Georgian banking system does not have the capacity or willingness to finance the levels of investment required by a growing agribusiness sector. New capital and management expertise will need to come from private domestic and foreign direct investment (FDI). In turn, since availability of domestic capital appears limited, FDI is clearly a critical requirement.

Nevertheless, even though Georgia established a foreign investment law in 1995 that aimed to provide a supportive environment for foreign investors, FDI in Georgia has remained very low. From 1989 to 2000 the total was about $731 million or about $138 on a per capita basis. For comparison purposes, all countries in CEE exceed these per capita levels. According to one source, total fixed capital investment in Georgia (i.e., domestic and foreign) fell 57 percent in 1998 and by another 28 percent from first quarter 1999 to first quarter 2000, largely because pipeline construction is nearing completion. Recent reports indicate a small improvement in 2000 (Georgia Times, 2/16/01). Unfortunately, most foreign investors attracted to Georgia are unable or unwilling to invest substantial amounts. They typically start with very low capital investment levels, and rely on reinvested profits rather than on new outside capital infusions.

There are many reasons that investors, both domestic and foreign, do not invest in Georgia. Based on discussions with private sector investors in Georgia (both Georgian and foreign) and on information from donor sources familiar with local business, the major constraints to domestic, but particularly foreign, investment in Georgia are as follows:

- A perception of high political risk, including frequent changes in legislation and policies.
- An uncertain macro-economic environment.
- Perceived high levels of business risk resulting from observed failed joint ventures and broken business agreements where foreign investors believe they were treated unfairly. This leads to a lack of confidence in Georgians as trustworthy partners.
- Legal businesses confront high levels of taxation and this, combined with widespread illegal evasion of taxes by small domestic firms, makes large-scale international businesses less competitive.
- A small domestic market and insufficiently developed export market.
- Excessive and non-transparent government regulations.
- A weak and corrupt judicial system making contract enforcement difficult, and the protection of property rights uncertain.
- Insufficient information from companies being privatized to permit adequate due diligence by serious foreign investors.
- Finally, few Georgian companies are available for sale under conditions where foreign investors would be willing to invest. This is because of a general overvaluation of company assets by Georgian company owners and reluctance among them to sell a controlling share to foreign investors.

Continuing efforts to reduce or remove these reasons that inhibit investment in Georgia are essential. Other sources of the financing vitally needed to re-capitalize industry and agriculture are simply inadequate or unavailable.

7. Inputs and Technology Employed

To date, the existing farm equipment pool in Georgia has largely been able to meet the needs of the agricultural sector, but the equipment is aging and becoming inadequate. Over the past decade the capital stock of farm machinery in Georgia actually decreased by 40-70 percent, Annex II, Table 8, as very little new equipment was purchased. The equipment that remains in use is generally in extremely poor condition, and kept working through the salvage of parts from inoperable machines. In many cases it is already inadequate leading to poor land and seedbed preparation, significant factors lowering productivity. Moreover, increased demand for mechanical services and more efficient production, consistent with expanded production and processing goals, will render this equipment pool even more inadequate without some replacement. The privatized Joint Stock Company, Agroservis, and the Joint Stock Company, Agrotekhservis, created to take over mechanization responsibility from government, are largely dormant.

Domestic production of agricultural machinery is extremely limited and only very small numbers of tractors, combines and other pieces of modern equipment have been imported into Georgia since 1990. International machinery suppliers have no or minimal representation in the country, but parts can be found for maintenance of some of the aging equipment. The equipment that is available is generally not suitable for small farms, but farmers have spontaneously associated to utilize equipment to prepare blocks of land. Also, in a few cases, smaller scale equipment has been obtained.

It is interesting to note that the land area under wheat and corn has nearly doubled in the past few years while the machinery pool has declined by half, demonstrating the skill of Georgian farmers in keeping machinery operating and getting the job done with what is available. The situation also suggests that the former system provided excessive amounts of equipment to the agricultural sector. However, as indicated above, there are costs in terms of efficiency and productivity.

Georgia produces nitrogen fertilizer, (Rustavi Nitrogen Fertilizer Plant) while being totally dependent on imports for phosphorus, potassium, and crop protection chemicals (CPCs). The majority of the nitrogen produced is exported with domestic use at only 20 percent of 1985 levels. Limited quantities of phosphorous and potassium are reportedly available but, based on the data set out in Annex II, Table 7, it would seem that potassium is not available. Saksoplanakopieri was the state organization that distributed fertilizer and CPCs. But the system has collapsed and no nationally effective system of fertilizer distribution is now available in Georgia.

While fertilizer use in 1985 was not likely optimal since state farms were not constrained by budget to use fertilizer and other inputs efficiently, the current level of non-use clearly has very negative consequences for soil fertility, and crop productivity. An estimated 86 percent of soil is deficient in phosphorus and 89 percent is deficient in potassium. Most soil is also deficient in organic matter.

The Service of Agro-chemistry and Soil Fertility (SASF) of the MOA provides soil analyses and fertilizer recommendation services on a fee basis. There is only limited demand for such services by newly formed farms because they do have the financial resources with which to buy the fertilizer, and facilities are deteriorating.

The use of crop protection chemicals has similarly plummeted from levels of the 1980's, Annex II, Table 7. Fungicides for fruits and vegetables traditionally comprised 70-85 percent of CPC usage. Current usage is just over one percent of the quantity used in 1985. Almost no herbicides are currently applied and insecticide applications are also very low. Georgia has very limited pesticide production capacity and is almost entirely dependent on imports. All herbicides are imported. The Crop Protection Service (CPS) under the MOA is responsible for registering pesticides, for the importation, storage and overseeing the field application of pesticides, operating the phyto-sanitary inspection system and providing needed laboratory services. For largely budgetary reasons, the CPS does very little in discharging these responsibilities.

During Assessment Team interviews in February 2001, two private groups were interviewed (Farmers Union and Analytica) that are working to distribute inputs to farmers. The Farmer's Union works to provide farmers technical information, seed, and CPCs through local, peasant-based distributors. The Union represents several international suppliers including Novartis, Bayer, Solana, and Agroplanta. Analytica, another private local company, also supplies seeds and CPCs to farmers on a basis very similar to the program run by Farmers Union. They represent international suppliers Dupont, Nufarm (Australia), BASF, Uniroyal Chemical, and some Dutch seed companies.

Together, these firms cover a very small part of the country's input needs, and claim that the principal reason farmers do not use inputs is because of cost. Processors and associations dealing with farmers also indicated that farmers could acquire inputs if they wanted them and could pay. In a few cases the processors or associations help farmers obtain inputs.

Water is another important input for agricultural production in Georgia. Yet the irrigation system that was developed during the soviet period has seriously deteriorated, both from neglect and uncertainty over operational responsibility. The regional Water Operation and Management Enterprises lack the resources to carryout the operation and maintenance of the system and the area under irrigation declined from over 450,000 hectares in 1990 to less than 300,000 hectares by 1999. Only a few local Water User Associations have emerged. In those irrigation systems that are functioning, water use is relatively inefficient and fee collection is often a problem. Further declines are anticipated unless investments in maintenance and rehabilitation are made along with efforts to decentralize control.

The effects of a deteriorating system are difficult to establish, but it is clear that there have already been disruptions to agricultural production. In a drought year like 2000, the effects are particularly serious. The World Bank has plans to rehabilitate 225,000 hectares of the irrigation system, and hope to get this program in place by mid year 2001. In fact, if this target date is missed the project may not be implemented before 2003.

Since 1990 the government-operated seed supply system in Georgia has largely collapsed. Some testing for registration of new varieties continues through the Variety Testing Commission (with interested parties covering the costs of testing). The Seed Quality Inspectorate or Inspection Commission (Gosseminspektsia) is responsible for seed certification, but has no field capacity. The two seed production organizations, Gruzzernosemprom and Gruzsortsemovaochch, were privatized in 1998, but almost all seed production has ceased and the farms are trying to survive as normal agricultural production units. The Research Institute for Crop Production is producing a limited quantity of seed. Some vegetable seed is being imported through legal channels. Demand is also being met by illegal imports, though quantities are unknown.

The Horizon Company, a Georgian seed company established with USAID assistance, is producing limited quantities of maize, sunflower, wheat and potato seed. This company produced over 450 metric tons of seed in CY 2000 and plans to produce 600+ tons in CY 2001. The Bolnisi potato seed growers, associated with the Dutch, are another group growing potato seed for sale. They produce two Dutch potato seed varieties, and sold about 400 tons for planting in 2001. In addition the Bolonisi growers have retained sufficient seed to plant 60 hectares of their own. They are also planting several new varieties on a test basis to enable registration of these varieties.

Other seed sources include the German assistance organization, GTZ, which has been helping, notably with imports of quality seed potato varieties and with vegetable seed. Limited quantities of potato seed are also produced by other private farmers with the Farmers Union and Analytica, the two input supply distributors mentioned above, making imported vegetable seed available. UMCOR receives donated seed that is distributed to farmers, but they indicate that farmers save seed and use the seed they trust, rather than the donated seed. With annual seed needs in Georgia for grains and vegetables (excluding potatoes) estimated at over 50,000 tons and requirements for "high" quality seed (purchased seed) being about 25 percent, the amounts currently being supplied are far from optimal. Potato seed requirements are 70-90,000 tons annually.

8. Marketing

The break up of the FSU disrupted historical patterns of trade coordinated through Moscow. This coordination no longer takes place and trade relations among the now independent countries of the FSU are now more sporadic. Nevertheless, Russia remains one of Georgia's biggest trading partner and, along with other FSU countries, will continue to be Georgia's most likely target market for exports. However, exports to Russia and other countries of the FSU have plummeted in recent years, and in 1999 trade to the CIS countries was only about 30 percent of the total.

Georgian processors have not been very successful in developing new markets to replace those lost as the Soviet Union broke apart. Sanitation, packaging and quality standards in Western Europe make it difficult for Georgia to enter these potentially lucrative markets in the near term. The problems of out-dated, inefficient and over-sized facilities and the costs associated with transportation, customs and corruption also make Georgian products expensive, when quality is considered, relative to those produced in West Europe or such countries as Poland or Turkey. As a result, it is often difficult for Georgian goods to compete with goods from West Europe, Poland or Turkey. A general lack of marketing expertise has added to the marketing difficulties. The Assessment Team found little evidence that serious attention was being given to the introduction or utilization of ISO 9000 or HACCP procedures.

A further problem is that the Soviet command economic system relied on government agencies to order, "purchase" and distribute goods produced by agricultural producers and processors. In a market economy, private wholesalers and distributors carry out many of these functions. In transition economies such as Georgia, Russia, Ukraine and other countries of the FSU, an adequate system of distributors and wholesalers have not yet developed. This means that even if a producer or processor is able to get his goods from Georgia to Moscow, s/he will have difficulty selling the goods without personal connections or without spending significant time in the city fulfilling the sale of his goods. The break up of large collective farms has additionally complicated marketing relations within the sector, as there are now no centralized collection points. The burden is placed on processors to collect raw materials from dispersed and generally disorganized producers. Similarly the marketing of fresh produce is fractured and inefficient.

Many producers market his/her own surplus, selling it by the side of the road, or hauling it into Tbilisi in the trunk and back seat of a car.

For a limited number of agricultural products, there are market outlets. Some milk producers are successfully marketing limited quantities of raw milk in nearby settlements. Nuts are being sold for export and grape juice can be sold to processors for use in the wine industry. For the most part, however, surplus vegetables, fruit, and milk is not being processed or being marketed beyond very local channels. With this decline in demand, farmers have no income and no incentive to invest in inputs to increase productivity or improve the quality of their output. This leads to a further decline in demand. Local consumers, processors and export markets will only demand Georgian produce if and when the quality and consistency of supply improve.

Finally, to the degree that there is demand for agricultural produce, either domestically or for export, this information reaches producers largely through informal connections. The Assessment Team heard that a program of market information had been carried out by one of the donor projects, but that it had been discontinued and not replaced. Thus, no source of market information currently exists that would help farmers know what to produce. Further, very few farmers have contract relationships with processors that could help orient their production program. Farmers with vineyards likely get the most advice because wineries work closely with them. Also, fruit growers such as those in the Gore Association have some help in planning future production, but help is extremely limited.

Annex II

Agricultural Sector Tables

Georgia
Table 1 - Areas of Annual Crops ('000 hectares)

	1985	1988	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Grains	273	272	270	291	277	256	257	260	281	437	416	379
Wi.wheat	80	87	91	100	112	83	68	61	79	165	141	107
Wi.barley	25	30	30	32	32	23	16	16	19	23	16	11
Rye	0.9	1.8	0.6	0.7	0.5	0.3	0.1	0.2	0.2	0.1	0.1	0.0
Spr.wheat	0.7	1.4	0.5	1.3	0.6	2.1	1.8	1.3	1.3	9.2	3.8	4
Spr.barley	19	16	17	19	16	14	13	16	13	19	18	18
Oats	11	12	10	11	10	10	8	9	6	7	7	5
Maize	118	109	107	115	95	112	138	142	149	203	220	223
Legumes	19	16	14	13	11	12	14	13	13	11	9	10
Beans	18	15	13	12	10	12	13	13	13	11	9	10
Peas	1	<1	<1	<1	0	0	0	0	0	0	0	0
Oilseeds												
Sunflower	12	12	13	13	12	14	18	36	33	36	54	71
Soybeans	11	12	8	5	2	1	1	1	2	3	2	2
Potatoes	32	30	28	23	22	21	24	23	24	27	34	34
Industrial												
Sugarbeet	1	1	1	1	2	1	1	1	0	0	0	0
Tobacco	11	10	7	6	3	3	2	1	1	1	3	2
Vegetabl.	38	39	36	31	25	25	29	29	28	32	42	43
Tomatoes	}						39%					
Cabbage	}						18%					
Onion	} n/a, but figures from 1994 indicate the following percentages						16%					
Garlic	}						3%					
Beet	}						4%					
Carrot	}						2%					
Other	}						18%					

Source: Goskomstat, and for 98 and 99 MAF, Dept of Crop Prod.

Georgia

Table 2 -Yields of Annual Crops (q/ha[1])

Grains	22.8	25.4	24.7	19.7	18.1	15.9	18.6	19.8	22.9	21	14.5	20.5
Wi.wheat	21.6	26.2	28.2	20.9	16.9	13.6	13	12.2	13.3	17.7	13	20.4
Wi.barley	20.6	14.6	27.4	20.1	17.3	12.5	11.5	10.9	9	14.3	10.5	17.2
Rye	17.1	18.8	25	18.8	13	5.1	8.1	8.9	10.9	7.1	n/a	n/a
Spr.wheat	16.1	12.8	15.1	13.5	14.8	6.6	10.1	11.9	13.6	6.7	12	17.5
Spr.barley	24.6	20.5	21.4	20.1	12.3	7.9	11.5	10.1	8.5	7.3	13.5	17.2
Oats	11.5	15.3	12	10.8	9.9	6.5	7.9	5.3	6	12.4	8	6.8
Maize	27.3	29.7	25.2	21.2	23.2	21.7	24.8	27.1	33	27.3	19.2	21.9
Legumes	7.4	6.3	4.5	4.5	4.8	4	6.1	9.3	8.7	7.1	10	9.4
Beans	7.2	5.9	3.9	3.8	4.3	4.1	6.1	9.3	8.8	7.1	10	9.4
Peas	5.7	9.7	6.8	7.8	3.7	2.5	4.7	2.1	4.1	5.7	n/a	n/a
Oilseeds												
Sunflower	7.7	13.6	5.8	5.4	5.9	2.3	4.3	2	1.2	8.9	8.4	5.8
Soybeans	5.2	5.6	4.4	4.2	1.8	0.7	1.8	1.3	14.6	6.3	7.5	5.5
Potatoes	125	109	106	110	95	116	123	152	121	130	119	130
Industrial												
Sugarbeet	474	366	229	155	147	104	76	133	86	0	0	0
Tobacco	19	11.8	11.2	12.6	12.5	0.9	9.3	8.3	9.2	11.3	3.8	10
Vegetabl.	144	148	111	105	114	141	143	140	136	151	84	97
Tomatoes	}											
Cabbage	}											
Onion	}											
Garlic	} n/a											
Beet	}											
Carrot	}											
Other	}											

Source: Goskomstat, and for 98 and 99 MAF, Dept of Crop Prod.[1] The 'q' in q/ha describes the quantity quintel, which is equal to 100 kg.

Georgia
Table 3 - Yields of Perennial Crops (t/ha)

	1985	1988	1990	1991	1992	1993	1994	1995	1996	1997	1998
Seed fruits	9.4	8.3	7	5.1	5.9	5.4	7	5.8	5.2	5.1	4.8
Apple	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.8	4.9	4.6
Pear	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6.4	5.7	4.9
Stone fruits	6.1	6	6.2	3.4	3.1	1.8	2.7	2.5	2.8	3.1	2.8
Plum/cherry	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.6	2.8	2.5
Peach/apricot	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.7	3.5	3.2
Nuts	0.36	0.47	0.48	0.47	0.48	0.58	0.52	0.46	0.55	0.86	0.82
Walnuts	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.15	1.02	0.85
Hazelnuts	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.41	0.83	0.8
Subtropical	5.2	3	6.6	6.9	8.1	8.2	9.2	8.3	8.3	8	7.5
Fig	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Pomegranate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Persimmon	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Berries	9.6	5.3	6.4	8.7	10.6	16.8	10.3	7.4	10.3	10.1	12.5
Grapes	8	5.9	6.8	6.1	4.1	4.7	3.8	4.8	3.6	4.1	3.9
Citrus	7.6	26.1	17	11.5	10.4	3.4	7.7	9	6.9	5.1	5
Tea	10.2	8.1	9	7.5	4.2	4.1	1.8	1.3	1	1.1	2.5

Source: Goskomstat, except 1998 MAF, Dept.of Crop Production

Georgia

Table 4 - Production of Annual Crops ('000 tons)

	1985	1988	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Grains	622	691	667	573	501	407	478	515	643	918	603	780
Wi.wheat	173	228	257	209	189	113	88	74	105	292	205	219
Wi.barley	52	44	82	64	55	29	18	17	17	33	4	19
Rye	2	3	2	1	1	<1	<1	<1	<1	<1	0	0
Spr.wheat	1	2	1	2	1	1	2	2	2	6	2	7
Spr.barley	47	33	36	38	20	11	15	16	11	14	17	31
Oats	13	18	12	12	10	7	6	5	4	9	4	3.4
Maize	322	324	270	244	220	243	342	385	492	554	420	490
Legumes	14	10	6	6	5	5	9	12	11	8	9	9.4
Beans	13	9	5	5	4	5	8	12	11	8	9	9.4
Peas	1	<1	<1	<1	<1	0	0	0	0	0	0	0
Oilseeds												
Sunflower	9	16	8	7	7	3	8	7	4	32	45	41
Soybeans	6	7	4	2	0	0	0	0	3	2	2	1.1
Potatoes	394	327	294	253	209	244	295	353	286	353	350	443
Industrial												
Sugarbeet	47	37	23	16	29	10	8	13	0	0	0	0
Tobacco	21	12	8	8	4	0	2	1	1	1	3.4	2
Vegetables.	604	577	443	326	285	353	415	428	424	514	380	417
Tomatoes	}											
Cabbage	}											
Onion	}											
Garlic	} n/a											
Beet	}											
Carrot	}											
Other	}											

Source: Goskomstat reported production data.

Georgia
Table 5 - Production of Perennial Crops ('000 tons)

	1985	1988	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Seed fruits	766	596	484	323	258	207	290	269	236	210	194	144
Apple	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	146	134	122	98
Pear	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	76	62	50	40
Stone fruits	182	171	177	91	69	35	59	65	70	72	63	90
Plum/cherry	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	36	37	31	37
Peach/apricot	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12	14	8	17
Nuts	8	10	9	9	8	10	9	7	8	12	11	35
Walnuts	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4	3	2	18
Hazelnuts	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5	9	8	17
Subtotal	956	777	670	424	336	253	358	341	315	294	268	269
Other	48	28	63	61	72	69	88	56	56	50	44	24
Fig	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Pomegranate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Persimmon	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Berries	1.0	0.5	1.3	0.9	1.1	1.7	1.0	1.5	2.1	2.0	2.5	1.6
Grapes	1024	696	768	665	357	371	308	451	328	332	312	220
Citrus	198	705	425	288	198	58	131	117	83	56	55	56
Tea	683	527	558	473	235	205	81	52	40	44	100	60

Source: For 1985 to 1998 World Bank & Goskomstat (some data differs substantially from Goskomst.prod.data); 1999 is based on Goskomstat production data.

Georgia
Table 6 - Livestock Indicators
Development of Livestock Population ('000)

	Unit	1985	1988	1990	1992	1994	1996	1998	1999	2000
Cattle	000	1646	1548	1298	1003	944	1008	1030	1050	1122
of wh.cows	000	649	620	552	502	514	544	556	575	640
Buffaloes	000	n/a	n/a	n/a	37	n/a	n/a	33	n/a	n/a
of wh.cows	000	n/a	n/a	n/a	19	n/a	n/a	19	n/a	n/a
Sheep & goats	000	1978	1894	1618	1192	793	652	610	587	633
of wh.females	000	1879	1228	1028	811	553	459	452	417*	449*
Pigs	000	1173	1099	880	476	367	333	350	365	411
of wh.sows	000	170	216	209	161	200	125	118	110*	123*
Poultry	000	24296	25172	21760	11211	12290	14645	15540	8240	8470
Horses	000	25	23	20	17	21	26	28	30	34
Bee hives	000	127	105	96	65	35	52	75	78	94

Production of Major Livestock Products	Unit	1985	1988	1990	1992	1994	1996	1998	1999	2000
Meat										
All livestock, live at slaughter	000 tons	253	268	263	177	171	187	147	165	n/a
Carcass	000 tons	166	172	170	113	108	118	108	104	n/a
Poultry, Slaughterweight	000 tons	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Milk	000 liters	684	731	659	470	429	530	640	660	n/a
Eggs	Mln pieces	823	890	769	297	251	350	380	390	n/a
Wool	Tons	6.2	6.8	6.2	4.2	3.4	3	1.7	1.7	n/a

Livestock Productivity	Unit	1985	1988	1990	1992	1994	1996	1998	1999	2000
Meat production										
Aver.slaughterweight										
Cattle	kg	N/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sheep & goats	kg	N/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Pigs	kg	N/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Broilers	kg	N/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Milk	lts/lact	1043	1177	1108	850	871	982	1087	1073	n/a
Eggs	Nr./layer	166	184	n/a	86	39	78	164	165	n/a
Wool	kg/sheep	3.3	3.8	3.5	3	2.9	2.9	3.4	3.4	n/a
Fertility rates										
per 100 cows (total)	Nr. calves	65	n/a	59	n/a	n/a	89	85	92	n/a
By ag enterprise	Nr. calves	55	n/a	49	n/a	n/a	54	49	42	n/a
By household owner	Nr. calves	70	n/a	63	n/a	n/a	90	91	91	n/a
per 100 ewes & does	Nr. Lambs	75	n/a	70	n/a	n/a	99	111	114	n/a
By ag enterprise	Nr. Lambs	84	n/a	80	n/a	n/a	48	36	41	n/a
By household owner	Nr. Lambs	67	n/a	60	n/a	n/a	112	152	124	n/a
per 100 sows (total)	Nr. Piglets/yr	1039	n/a	737	n/a	n/a	985	723	833	n/a
By ag enterprise	Nr. Piglets/yr	892	n/a	711	n/a	n/a	367	290	260	n/a
By household owner	Nr. Piglets/yr	1096	n/a	744	n/a	n/a	986	841	837	n/a

Source: Goskomstat and partially MAF, Dept. of Livestock; * indicates a team estimate

Georgia
Table 7 - Pesticide and Fertilizer Supplies

Pesticide Supply (in physical tons)

	1985	1988	1990	1992	1994	1996	1998
Herbicides	1000	1398	1177	140	2	5	18
Insecticides	7794	8462	3523	1142	15	5	10
Fungicides	20933	14150	17856	6882	104	190	234
Total	29727	24010	22556	8164	121	200	262

Fertilizer Supply (in '000 tons of pure nutrients)

	1985	1988	1990	1992	1994	1996	1998
N	128	112	64	31	4	5	28
P	84	75	26	8	0	0	4
K	34	40	4	0	0	0	0
Total	246	227	94	39	4	5	32

Source: MAF, Department of Agrochemistry and Soil Fertility

Georgia
Table 8 - Department of Agricultural Mechanization 1988-98

	1988	1990	1992	1993	1994	1995	1996	1997	1998
Tractors	26806	26000	23009	20800	18200	15160	15240	17583	17240
Grain combines	1576	1343	1236	1114	1080	949	996	1018	969
Plows	10343	8339	6720	5491	5365	5216	5232	5367	4190
Cultivators	5370	4370	3184	2626	2567	2307	2335	2340	1750
Drills	4237	3852	2987	2737	2692	2018	2064	1910	1870
Trailers	10490	8589	6846	5251	5298	5265	5483	5617	5083
Fertilizer spreaders	2534	2373	1832	1635	1319	1084	1192	1230	949
Sprayers	4851	4027	2928	2262	2206	1905	1628	1498	1450
Trucks	20182	17800	15255	13823	13420	12860	12371	12110	10353
Maize combines	350	300	285	260	225	211	198	176	104
Potato combines	48	40	38	35	32	29	22	10	9
Forage harvesters	1479	1400	1291	1200	1115	918	750	630	241
Mowers	2252	2200	2115	2005	1853	1603	1415	1162	568
Presses	1818	1700	1598	1410	1355	1209	1090	990	730
Pumps	1053	990	900	809	750	619	439	300	280
Irrigation machines	575	520	490	453	408	309	269	180	155
Total	97267	87203	74106	65341	61361	55238	52451	53938	47784

Source: MAF, Department of Mechanization. Note that some figures disagree greatly with estimates of Goskomstat

Georgia

Table 9: Processing Plant Utilization Kakheti Region, August 2000

Description	Capacity Utilization		
	Full	Partial	Closed
Bread & bakery products		5	
Complex Agro-industry			1
Confectionery production			1
Dairy processing	1	2	1
Meat processing	1	2	1
Grain & Macaroni processing	3	5	1
Beverages	1	2	
Production of packing items			1
Sunflower processing	2	3	3
Fruit & Vegetable processing	1		4
Miscellaneous	1		1
Total	10	19	14

Source: A Survey of Agricultural Resources in Khakheti Region, Georgian Foundation, August 2000.

ANNEX III

ASSESSMENT TEAM SCHEDULE

Day/Time	*Agenda Item*	*Contact*
Monday, February 5		
0900 -10:00	USAID/Tbilisi- ER	James Watson/Donald Niss
10:00 -10:30	USAID/Tbilisi - Contracting Office	Shahid Pervaiz
10:30 -11:00	USAID/Tbilisi- PPS	Earl Gast/Judy Schumacher
11:00 - 1:30	Portfolio Review SO 3	
1:30 - 2:30	USAID/Tbilisi - HR	Nicole Jordania
3:00 - 4:30	UMCOR	Hank Shumacher Michael Karalashvili
5:00 - 5:30	USAID/Tbilisis - DIR	Mike Farbman/USAID staff
6:00 - 7:30	World Bank Rm. 540 Ministry of Agriculture	George Maglakelidze
Tuesday, February 6		
9:00 - 10:30	ACDI-VOCA 35 Davitashvili Str.	Hugh Brown Aleksandre Kavtaradze Irakli Kherodinashvili
11:00 - 12:00	Horizon Seed 69 Oneashvili Str.	Beka Tagauri/Horizon Staff
11:00 - 1:00	APLR/Land Market	Dato Arsenashvili Jaba Ebanoidze Lela Sharinishvili
12:00 - 1:00	Lunch	
1:30 - 3:00	Save the Children 54 Mtskheta St.	Will Bateson
3:30 - 5:00	Sibley International 12 Rustaveli St. 5th floor	William Cain
5:30 - 6:30	Georgian Export Promotion Agency (GEPA) 42A Aleksandr Kazbeki Ave (first floor)	Paul Galbraith George Gaganidze
7:00 - 8:30	CARE 100 T. Tabidze St.	John Perry Rene Celaya
Wednesday, February 7		
7:00 - 9:30	Travel to Telavi	
9:30 - 10:30	ACDI/VOCA Credit Association in Telavi	Levan Sasurkinashvili
10:30 - 1:00	ACDI/VOCA Processor Client - Bakery	
11:15 -11:45	ACDI/VOCA Processor Client - Fruit Processor	
12:00 - 1:30	ACDI/VOCA Processor Client - Sophio Timber	P. Noneshvili

1:30 - 2:30	Lunch	
2:30 - 3:30	Sibley International - Telavi office 23 Chavchavadze Street	Dave Harmon
3:30 - 4:30	Wine Association	Paata Giorgobani
5:30 - 7:30	Yorali Yogurt Sagaredjo, Village Giorgitsminda	Levan Samarguliani
7:30 - 8:30	Return to Tbilisi	
Thursday, February 8		
9:00 -10:30	Farmers' Union Prospect Tserateli 142	Raul Babeshvili
11:00 -1:00	Portfolio Review SO 3.1	
11:00 -12:30	Agribusiness Bank 10 Budapeshti Street	Peter Shaw, Michael Mgaloblisvili
12:30 - 1:00	Lunch	
1:30 - 2:30	TACIS	George Kipiani Soso Tsiskarishivili Irma Khvedeliani
4:00 - 6:00	Ministry of Agriculture Expenditure Meeting 80a Tabidze Street	Craig McPhee, KPMG
7:00 - 8:30	Minister of Agriculture	David Kirvalidze
Friday, February 9		
9:30 -10:30	Georgian Investment Center 42 Kazbegi, 2nd Floor	Saba Sarishvili
11:00 -12:00	Land Team at Parliament	Dato Arsenashvili
11:00 -1:00	Mission-Wide Issues (Portfolio Review)	
12: 30 -1:30	Borusan Makina (Catepillar) 74 Kostava Street	Ismael Shahin George Gigineishvili
1:00 - 2:00	Lunch	
3:00 - 4:00	Analytica University Building #2 Chavchavadze Ave. Rm. 214	Koba Khutsishvili
4:30 - 5:30	Imperial 18 Queen Tamara Street	Nugzar Jikia
6:00 - 7:00	GTZ 43 Gogebashvili St., 4th Floor	Ekkehard Clemens
Saturday, February 10		
8:00 - 9:00	Travel to Gori	
9-00-10:45	Meet with ACDI/VOCA Gori Production Credit Association Staff and Gori Fruit Growers Association	Avtandie Tsrialashvili

11:00 - 12:00	Meet with Gorkoni Fruit Cannery	
12:00 - 1:00	Lunch	
1:30 - 2:00	Visit Gomi Liquor and Vodka Company	
2:30 - 3:00	Return to Tbilisi	
3:00 - 6:00	Team Meeting	
Sunday, February 11		
1:00 - 4:00	Travel to Kutaisi	
Monday, February 12		
	In Kutaisi	
9:00 - 10:30	Dairy –private loan for herd expansion Village Chuneti Factory "Chanadi"	Nato Bibileishvili (In Tskaltubo)
11:00 - 12:30	Flour Mill; Bakery; Retail Outlet 274 Tsereteli	Murad Tsivtsivadze
1:00 - 2:00	Lunch and Briefing at Sibley International 3 Gogebashvili Street - Kutaisi	Paul Louise Mamuka Erikashvili
2:00 - 3:00	Meat Processing Plant "Imtec" Hatchery "Gibra 98" Ltd	Nino Dvali
3:00 - 6:00	Return to Tbilisi	
Tuesday, February 13		
9:00 - 10:00	Elkana Organic Association Delisi 3rd. St, Naqueti 16 Sabartalo Reg.	Nana Nemsadze Tamaz Dundua
10:30 - 11:30	Martin Bauer 55 Chavchavadze Ave.	Noe Kinkladze
3:30 - 4:30	WB Delegation 18a Chonkadze Street	Iain Shucker Darejan Kapanadze
Wednesday, February 14		
9:00 - 10:00	WB Team	Iain Shucker/ Darejan Kapanadze/ David Bontempo
10:15- 11:00	USAID/Tbilisi- RCO	Carlton Bennett
11:00 -12:00	USAID/Tbilisi- DIR	Mike Farbman/Staff
12:30 -1:30	USAID Advisor to Ministry of Agriculture	Don Van Atta
4:00 - 5:30	US Department of Commerce	Nino Kumsishvili
7:30 - 8:30	Ministry of Agriculture	David Kirvalidze

Thursday, February 15		
9:00 -10:00	European Commission Food Security Programme in Georgia, Ministry of Agriculture and Food Address: 41 Kostava Street, Room 349	Joep Cuijpers Sophie Kemkhadze
11:00 -12:00	American Chamber of Commerce 1 Nutsubidze Street	Fady Asly
1:30 - 3:00	Mission-Wide Issues (Portfolio Review)	
6:00 - 7:00	GTZ	Ekkehard Clemens
Friday, Feb 16		
9:00 - 7:00	Material Review and Drafting	
Saturday, Feb 17		
9:00 - 10:00	Trip to Bolnisi	
10:00 - 11:30	The Fund of Georgian Private Farmers Assistance (Bolnisi potato growers)	Goga Kharatishvili, Ucha Tkheladze, Misha Sokhadze
11:30 - 12:30	Return to Tbilisi	
1:00 - 2:30	Agribusiness Bank	Peter Shaw
3:00 - 4:30	Central Market	
Monday, Feb 19		
	HOLIDAY	
Tuesday, Feb 20		
9:30 - 10:30	USAID/Tbilisi-RLA	Joakim Parker
5:00 - 6:00	USAID/Tbilisi-ER and ACDI/VOCA	Gerald Andersen/Don Niss/Tamara Sulukhia
Wednesday, Feb 21		
11:00 - 12:00	Supermarket- BIG BEN 52 Chavchavadze Ave.	George Makharashvili
12:00 -1:00	UN/FAO 9 Eristavi street	Peter Dickie
2:00 - 3:30	ACDI/VOCA 35 Davitashvili street	Rusty Schultz

Thursday, February 22		
10:00 -11:00	UMCOR	Hank Schumacher
Friday, February 23		
10:00 - 11:00	Georgian Wine and Spirits 2 Sarajishvili Ave., 4th floor, Avchala	George Mshvidobadze Irakley Cholobarghia
5:00 - 6:30	USAID/Tbilisi - DIR	Mike Farbman/USAID staff
7:00 - 8:00	Minister of Agriculture	David Kirvalidze

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Annex IV

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